

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, 2022
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 19403-5214
(Address of principal executive offices) (Zip Code)

(610) 930-1800
(Registrant's telephone number, including Area Code)

Title of each class	Securities registered pursuant to Section 12(b) of the Act:	Trading Symbols	Name of exchange on which registered
Class A Common Stock, par value \$.001 per share		GMED	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files):

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 4, 2022 was 99,842,557 shares.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(In thousands, except share and per share values)</i>	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 134,223	\$ 193,069
Short-term marketable securities	271,063	250,378
Accounts receivable, net of allowances of \$4,284 and \$4,962, respectively	206,307	164,436
Inventories	282,408	237,001
Prepaid expenses and other current assets	23,803	18,417
Income taxes receivable	2,197	1,215
Total current assets	920,001	864,516
Property and equipment, net of accumulated depreciation of \$332,917 and \$305,575, respectively	236,342	221,076
Long-term marketable securities	503,965	562,475
Intangible assets, net	54,057	68,660
Goodwill	181,774	179,708
Other assets	35,654	36,334
Deferred income taxes	44,719	24,494
Total assets	\$ 1,976,512	\$ 1,957,263
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 31,971	\$ 21,955
Accrued expenses	88,361	91,168
Income taxes payable	1,308	1,046
Business acquisition liabilities	11,329	11,770
Deferred revenue	12,286	12,025
Payable to broker	—	2,200
Total current liabilities	145,255	140,164
Business acquisition liabilities, net of current portion	52,965	58,755
Deferred income taxes	1,578	4,314
Other liabilities	12,603	12,642
Total liabilities	212,401	215,875
Commitments and contingencies (Note 15)		
Equity:		
Class A common stock; \$0.001 par value. Authorized 500,000,000 shares; issued and outstanding 77,401,459 and 79,113,916 shares at September 30, 2022 and December 31, 2021, respectively	77	79
Class B common stock; \$0.001 par value. Authorized 275,000,000 shares; issued and outstanding 22,430,097 and 22,430,097 shares at September 30, 2022 and December 31, 2021, respectively	22	22
Additional paid-in capital	606,352	553,787
Accumulated other comprehensive income/(loss)	(32,226)	(6,772)
Retained earnings	1,189,886	1,194,272
Total equity	1,764,111	1,741,388
Total liabilities and equity	\$ 1,976,512	\$ 1,957,263

See accompanying notes to unaudited condensed consolidated financial statements.

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

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net sales	\$ 254,148	\$ 229,721	\$ 748,345	\$ 708,081
Cost of goods sold	<u>65,497</u>	<u>58,554</u>	<u>193,134</u>	<u>177,427</u>
Gross profit	<u>188,651</u>	<u>171,167</u>	<u>555,211</u>	<u>530,654</u>
Operating expenses:				
Research and development	18,701	15,853	53,508	46,324
Selling, general and administrative	106,576	96,444	314,042	301,589
Provision for litigation	—	605	2,341	511
Amortization of intangibles	4,324	4,573	13,229	13,970
Acquisition related costs	(652)	363	(1,832)	14,507
Total operating expenses	<u>128,949</u>	<u>117,838</u>	<u>381,288</u>	<u>376,901</u>
Operating income/(loss)	59,702	53,329	173,923	153,753
Other income/(expense), net				
Interest income/(expense), net	3,899	2,105	8,918	7,358
Foreign currency transaction gain/(loss)	(2,210)	(898)	(3,708)	(969)
Other income/(expense)	74	(84)	1,770	437
Total other income/(expense), net	<u>1,763</u>	<u>1,123</u>	<u>6,980</u>	<u>6,826</u>
Income/(loss) before income taxes	61,465	54,452	180,903	160,579
Income tax provision	<u>14,034</u>	<u>7,241</u>	<u>40,799</u>	<u>26,494</u>
Net income/(loss)	<u>\$ 47,431</u>	<u>\$ 47,211</u>	<u>\$ 140,104</u>	<u>\$ 134,085</u>
Other comprehensive income/(loss), net of tax:				
Unrealized gain/(loss) on marketable securities	(4,380)	(991)	(18,239)	(3,431)
Foreign currency translation gain/(loss)	(2,478)	(491)	(7,215)	(3,578)
Total other comprehensive income/(loss), net of tax	<u>(6,858)</u>	<u>(1,482)</u>	<u>(25,454)</u>	<u>(7,009)</u>
Comprehensive income/(loss)	<u>\$ 40,573</u>	<u>\$ 45,729</u>	<u>\$ 114,650</u>	<u>\$ 127,076</u>
Earnings per share:				
Basic	<u>\$ 0.48</u>	<u>\$ 0.47</u>	<u>\$ 1.39</u>	<u>\$ 1.33</u>
Diluted	<u>\$ 0.47</u>	<u>\$ 0.45</u>	<u>\$ 1.36</u>	<u>\$ 1.30</u>
Weighted average shares outstanding:				
Basic	<u>99,652</u>	<u>101,104</u>	<u>100,638</u>	<u>100,477</u>
Diluted	<u>101,417</u>	<u>104,418</u>	<u>102,789</u>	<u>103,430</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

<i>(In thousands)</i>	Class A Common Stock		Class B Common Stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Retained earnings	Total
	Shares	\$	Shares	\$				
Balance at December 31, 2021	79,114	\$ 79	22,430	\$ 22	\$ 553,787	\$ (6,772)	\$ 1,194,272	\$ 1,741,388
Stock-based compensation	—	—	—	—	8,353	—	—	8,353
Grant of restricted stock units	—	—	—	—	196	—	—	196
Exercise of stock options	184	—	—	—	7,746	—	—	7,746
Comprehensive income/(loss)	—	—	—	—	—	(10,395)	38,084	27,689
Balance at March 31, 2022	79,298	\$ 79	22,430	\$ 22	\$ 570,082	\$ (17,167)	\$ 1,232,356	\$ 1,785,372
Stock-based compensation	—	—	—	—	8,020	—	—	8,020
Grant of restricted stock units	—	—	—	—	220	—	—	220
Exercise of stock options	90	—	—	—	3,585	—	—	3,585
Comprehensive income/(loss)	—	—	—	—	—	(8,201)	54,590	46,389
Repurchase and retirement of common stock	(2,351)	(2)	—	—	—	—	(144,491)	(144,493)
Balance at June 30, 2022	77,037	\$ 77	22,430	\$ 22	\$ 581,907	\$ (25,368)	\$ 1,142,455	\$ 1,699,093
Stock-based compensation	—	—	—	—	8,434	—	—	8,434
Grant of restricted stock units	—	—	—	—	1,116	—	—	1,116
Exercise of stock options	364	—	—	—	14,895	—	—	14,895
Comprehensive income/(loss)	—	—	—	—	—	(6,858)	47,431	40,573
Balance at September 30, 2022	77,401	\$ 77	22,430	\$ 22	\$ 606,352	\$ (32,226)	\$ 1,189,886	\$ 1,764,111

<i>(In thousands)</i>	Class A Common Stock		Class B Common Stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Retained earnings	Total
	Shares	\$	Shares	\$				
Balance at December 31, 2020	77,284	\$ 77	22,430	\$ 22	\$ 457,161	\$ 3,955	\$ 1,045,082	\$ 1,506,297
Stock-based compensation	—	—	—	—	7,883	—	—	7,883
Grant of restricted stock units	—	—	—	—	163	—	—	163
Exercise of stock options	303	1	—	—	9,100	—	—	9,101
Comprehensive income/(loss)	—	—	—	—	—	(5,779)	45,329	39,550
Balance at March 31, 2021	77,587	\$ 78	22,430	\$ 22	\$ 474,307	\$ (1,824)	\$ 1,090,411	\$ 1,562,994
Stock-based compensation	—	—	—	—	7,788	—	—	7,788
Grant of restricted stock units	—	—	—	—	197	—	—	197
Exercise of stock options	716	1	—	—	26,496	—	—	26,497
Comprehensive income/(loss)	—	—	—	—	—	252	41,545	41,797
Balance at June 30, 2021	78,303	\$ 79	22,430	\$ 22	\$ 508,788	\$ (1,572)	\$ 1,131,956	\$ 1,639,273
Stock-based compensation	—	—	—	—	7,621	—	—	7,621
Grant of restricted stock units	—	—	—	—	1,311	—	—	1,311
Exercise of stock options	727	—	—	—	24,335	—	—	24,335
Comprehensive income/(loss)	—	—	—	—	—	(1,482)	47,211	45,729
Balance at September 30, 2021	79,030	\$ 79	22,430	\$ 22	\$ 542,055	\$ (3,054)	\$ 1,179,167	\$ 1,718,269

See accompanying notes to unaudited condensed consolidated financial statements.

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

<i>(In thousands)</i>	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 140,104	\$ 134,085
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,342	53,038
Amortization of premium (discount) on marketable securities	4,446	1,763
Write-down for excess and obsolete inventories, net	5,890	5,570
Stock-based compensation expense	24,303	22,781
Allowance for doubtful accounts	(396)	883
Change in fair value of business acquisition liabilities	(2,043)	14,336
Change in deferred income taxes	(17,014)	(3,131)
(Gain)/loss on disposal of assets, net	241	383
Payment of business acquisition related liabilities	(2,021)	—
(Increase)/decrease in:		
Accounts receivable	(46,200)	(19,928)
Inventories	(48,650)	(9,161)
Prepaid expenses and other assets	(6,866)	(794)
Increase/(decrease) in:		
Accounts payable	10,407	2,521
Accrued expenses and other liabilities	1,660	7,500
Income taxes payable/receivable	(710)	(9,825)
Net cash provided by/(used in) operating activities	114,493	200,021
Cash flows from investing activities:		
Purchases of marketable securities	(322,100)	(347,057)
Maturities of marketable securities	239,126	171,886
Sales of marketable securities	89,978	82,882
Purchases of property and equipment	(55,707)	(39,853)
Acquisition of businesses, net of cash acquired and purchases of intangible and other assets	(1,175)	—
Net cash provided by/(used in) investing activities	(49,878)	(132,142)
Cash flows from financing activities:		
Payment of business acquisition liabilities	(5,288)	(4,763)
Proceeds from exercise of stock options	26,228	59,933
Repurchase of common stock	(144,493)	—
Net cash provided by/(used in) financing activities	(123,553)	55,170
Effect of foreign exchange rates on cash	92	(570)
Net increase/(decrease) in cash and cash equivalents	(58,846)	122,479
Cash and cash equivalents at beginning of period	193,069	239,397
Cash and cash equivalents at end of period	\$ 134,223	\$ 361,876
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 58,301	\$ 39,450
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 5,341	\$ 3,491

See accompanying notes to unaudited condensed consolidated financial statements.

NOTE 1. BACKGROUND***(a) The Company***

Globus Medical, Inc., together with its subsidiaries, is a medical device company that develops and commercializes healthcare solutions with a mission to improve the quality of life of patients with musculoskeletal disorders. We are primarily focused on implants that promote healing in patients with musculoskeletal disorders, including the use of a robotic guidance and navigation system and products to treat patients who have experienced orthopedic traumas.

We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures to assist surgeons in effectively treating their patients and to address new treatment options. With over 220 products launched, we offer a comprehensive portfolio of innovative and differentiated technologies that address a variety of musculoskeletal pathologies, anatomies, and surgical approaches.

We are headquartered in Audubon, Pennsylvania, and we 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) COVID-19 Pandemic Impact

In March 2020, the World Health Organization declared the novel strain of coronavirus (“COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. COVID-19 has significantly impacted the economic conditions in the U.S. and globally as federal, state and local governments react to the public health crisis, creating significant uncertainties in the economy.

Although the Company cannot reasonably estimate the length or severity of the impact that COVID-19 will have on its financial results, the Company may experience a material adverse impact on its sales, results of operations, and cash flows in 2022 should there be a resurgence impacting hospitals, surgical facilities, our internal operations, or our suppliers.

In response to these developments, the Company will continue to monitor liquidity and cash flow. The Company has the ability to borrow from its existing credit facility, if needed, although we do not expect to do so due to our cash, cash equivalents and short-term marketable securities balances.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(a) Basis of Presentation***

The accompanying interim unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in complete financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the U.S. 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, 2021.

In the opinion of management, these condensed consolidated financial statements include all adjustments necessary, which are of a normal and recurring nature, for the fair presentation of our financial position as of September 30, 2022, and results of operations for the three and nine months ended September 30, 2022. The results of operations for any interim period may not be indicative of results for the full year.

(b) Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Globus and its wholly-owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

(c) Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed 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 condensed consolidated financial statements in the period they are determined to be necessary.

Significant areas that require estimates include revenue recognition, intangible assets, business acquisition liabilities, allowance for doubtful accounts, stock-based compensation, reserves for excess and obsolete inventory, useful lives of assets, the outcome of litigation, recoverability of intangible assets 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.

(d) Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. Sales and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. For purposes of disclosure, we disaggregate our revenue into two categories, Musculoskeletal Solutions and Enabling Technologies. Our Musculoskeletal Solutions products consist primarily of the implantable devices, disposables, and unique instruments used in an expansive range of spine, orthopedic trauma, hip, knee and extremity procedures. The majority of our Musculoskeletal Solutions contracts have a single performance obligation and revenue is recognized at a point in time. Our Enabling Technologies products are advanced hardware and software systems, and related technologies that are designed to enhance a surgeon's capabilities and streamline surgical procedures by making them less invasive, more accurate, and more reproducible to improve patient care. The majority of our Enabling Technologies product contracts contain multiple performance obligations, including maintenance and support, and revenue is recognized as we fulfill each performance obligation. When contracts have multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. Our policy is to classify shipping and handling costs billed to customers as sales and the related expenses as cost of goods sold.

Nature of Products and Services

A significant portion of our Musculoskeletal Solutions product revenue is generated from consigned inventory maintained at hospitals or with sales representatives. Revenue from the sale of consigned musculoskeletal products is recognized when we transfer control, which generally occurs at the time the product is used or implanted. For all other Musculoskeletal Solutions product transactions, we recognize revenue when we transfer title to the goods, provided there are no remaining performance obligations that can affect the customer's final acceptance of the sale.

Revenue from the sale of Enabling Technologies products is generally recognized when control transfers to the customer which occurs at the time the product is shipped or delivered. Any revenue related to the provision of maintenance and support is recognized as we satisfy the performance obligation. We use an observable price to determine the stand-alone selling price for each separate performance obligation.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. We record a receivable when revenue is recognized prior to invoicing, or deferred revenue when revenue is recognized subsequent to invoicing.

Deferred revenue is comprised mainly of unearned revenue related to the sales of certain Enabling Technologies products, which includes maintenance and support services. Maintenance and support services are generally invoiced annually, at the beginning of each contract period, and revenue is recognized ratably over the maintenance period. For the three and nine months ended September 30, 2022, there was an immaterial amount of revenue recognized from previously deferred revenue.

(e) Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with original maturities of 90 days or less at acquisition date to be cash equivalents. Cash equivalents, which consist of money market accounts, commercial paper and corporate debt securities are stated at fair value.

(f) Marketable Securities

Our marketable securities include municipal bonds, corporate debt securities, commercial paper, asset-backed securities, and securities of government, federal agency, and other sovereign obligations and are classified as available-for-sale as of September 30, 2022. Short-term and long-term marketable securities are recorded at fair value on our condensed consolidated balance sheets. Any change in fair value of our available-for-sale securities, that do not result in recognition or reversal of an allowance for credit loss or write-down, are recorded, net of taxes, as a component of accumulated other comprehensive income or loss on our condensed 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 marketable securities are determined on a specific identification basis. Realized gains and losses, interest income and the amortization/accretion of premiums/discounts are included in other income/(expense), net, on our condensed consolidated statements of operations and comprehensive income. Interest receivable is recorded in prepaid expenses and other current assets on our condensed consolidated balance sheets.

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 declines in the fair value of our securities to determine whether they are resulting from expected credit losses or other factors. If the assessment indicates a credit loss exists, we recognize any measured impairment as an allowance for credit loss in our condensed consolidated statements of operations. Any other impairments not recorded through allowance for credit losses is recognized in our other comprehensive income.

(g) Fair Value Measurements***Assets and Liabilities That Are Measured at Fair Value on a Recurring Basis***

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

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

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

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

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

Assets and Liabilities That Are Measured at Fair Value on a Nonrecurring Basis

The purchase price of business acquisitions is primarily allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the excess recorded as goodwill. We utilize Level 3 inputs in the determination of the initial fair value.

Contingent consideration represents contingent milestone, performance and revenue-sharing payment obligations related to acquisitions and is measured at fair value, based on significant inputs that are 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 assumptions on an ongoing basis as additional data impacting the assumptions is obtained. The fair value of contingent consideration recorded in business acquisition liabilities on our condensed consolidated balance sheets, and changes in the fair value of contingent consideration are recognized in acquisition related costs in the condensed consolidated statements of operations and comprehensive income. The fair value of contingent restricted stock unit (“RSU”) grants are recorded as additional paid-in capital in the consolidated balance sheet on the day of the grant due to the remote likelihood of forfeiture.

(h) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis. The majority of our inventory is finished goods and we utilize both in-house manufacturing and third-party suppliers to produce our products. We periodically evaluate the carrying value of our inventories in relation to estimated forecasts of product demand, which takes into consideration the life cycle of product releases. When quantities on hand exceed estimated sales forecasts, we record a write-down for such excess inventories. Once inventory has been written down, it creates a new cost basis for inventory that is not subsequently written up.

(i) Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over the fair values of the identifiable assets acquired less the liabilities assumed in the acquisition of a business. Goodwill is tested for impairment at least annually or whenever events or circumstances indicate that a carrying amount may not be recoverable. Goodwill is tested for impairment at the reporting unit level by comparing the reporting unit's carrying amount to the estimated fair value of the reporting unit. Fair values are estimated using an income and discounted cash flow approach. We perform our annual impairment test of goodwill in the fourth quarter of each year. We consider qualitative indicators of the fair value of a reporting unit when it is unlikely that a reporting unit has impaired goodwill. During the nine months ended September 30, 2022 and 2021, we did not record any impairment charges related to goodwill.

Intangible assets consist of purchased in-process research and development ("IPR&D"), developed technology, supplier network, patents, customer relationships, re-acquired rights, and non-compete agreements. Intangible assets with finite useful lives are amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from one to sixteen years. Intangible assets with finite useful lives are tested whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. If an impairment is indicated, we measure the amount of the impairment loss as the amount by which the carrying amount exceeds the fair value of the asset. Fair value is generally determined using a discounted future cash flow analysis. There were no impairments of finite-lived intangible assets during the nine months ended September 30, 2022 or 2021.

IPR&D has an indefinite life and is not amortized until completion of the project at which time the IPR&D becomes an amortizable asset. Intangible assets with indefinite useful lives are tested for impairment annually or whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. If the related project is not completed in a timely manner, we may have an impairment related to the IPR&D, calculated as the excess of the asset's carrying value over its fair value. There were no impairments of IPR&D during the nine months ended September 30, 2022 or 2021.

(j) Stock-Based Compensation

The cost of employee and non-employee director awards is measured at the grant date fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period of the equity award. Compensation expense for awards includes the impact of forfeiture in the period when they occur.

We estimate the fair value of stock options utilizing the Black-Scholes option-pricing model. Inputs to the Black-Scholes model include our stock price, expected volatility, expected term, risk-free interest rate and expected dividends. Expected volatility is based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected term of the Company's stock options offering period which is derived from historical experience. The risk-free interest rate assumption is based on observed interest rates of U.S. Treasury securities appropriate for the expected terms of the stock options. The dividend yield assumption is based on the history and expectation of no dividend payouts. The fair value of restricted stock units is estimated on the date of the grant using the closing price of the Company's common stock.

(k) Recently Issued Accounting Pronouncements

None applicable.

(l) Recently Adopted Accounting Pronouncements

On March 12, 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is effective for all entities as of March 12, 2020, and will apply through December 31, 2022. To date, we have had no impacts on our investment portfolio or our credit agreement with Citizens Bank, N.A. related to reference rate reform. We

will continue to evaluate the impact this guidance could have on our condensed consolidated financial statements and related disclosures.

NOTE 3. ASSET ACQUISITIONS AND BUSINESS COMBINATIONS

Asset Acquisitions

During the fourth quarter of 2021, the Company acquired substantially all the assets of Capstone Surgical Technologies, LLC, which engages in the business of advanced drill and robotic surgery platforms. The purchase price consisted of \$24.5 million of cash paid at closing, subject to net working capital and other post-closing adjustments, if applicable. The transaction also provides for additional consideration contingent upon the developed products obtaining approval from the U.S. Food and Drug Administration (the "FDA") of up to \$15.0 million, and additional consideration of up to \$10.0 million contingent upon the achievement of certain performance milestones. Contingent consideration is not recorded in an asset acquisition until the milestone is met.

Also during the fourth quarter of 2021, the Company acquired substantially all the assets of a company that engages in the development of technology for use in robotic surgery platforms which was not considered material to the consolidated financial statements during the periods presented. The purchase price consisted of \$10.0 million of cash paid at closing and also provides for additional consideration of \$5.0 million contingent upon the achievement of certain performance milestones. Contingent consideration is not recorded in an asset acquisition until the milestone is met.

During the second quarter of 2020, the Company acquired Synoste Oy, a Finnish engineering company that specializes in the research and development of a limb lengthening system. The fair value of the net assets acquired was \$25.3 million, and the consideration consisted of approximately \$22.8 million of cash paid at closing plus \$2.5 million of a contractual holdback obligation payable eighteen months from the closing date of the transaction, subject to net working capital and other post-closing adjustments, if applicable. During the fourth quarter of 2021, the contractual holdback and net working capital and other post-closing adjustments were settled for \$2.7 million. The transaction also provides for additional consideration of \$8.0 million contingent upon the developed product obtaining approval from the FDA within the third anniversary, or \$4.0 million if within the fourth anniversary of the acquisition closing date, respectively. Contingent consideration is not recorded in an asset acquisition until the milestone is met.

The Company accounted for each of these transactions as asset acquisitions because substantially all of the fair value of the assets acquired in each transaction was concentrated in a single identified asset, in-process research and development ("IPR&D") of the acquired technology, thus satisfying the requirements of the screen test in ASU 2017-1. At the date of the acquisitions, the Company determined that the development of the projects underway had not yet reached technological feasibility and that the research in process had no alternative future use. Accordingly, the acquired IPR&D of \$34.3 million and \$24.4 million was charged to research and development expense in the condensed consolidated statements of operations and comprehensive income for years ended 2021 and 2020, respectively.

Business Combinations

During the first nine months of 2022, the Company completed one acquisition in the second quarter that was not considered material to the condensed consolidated financial statements during the periods presented. This acquisition has been included in the condensed consolidated financial statements from the date of acquisition. The purchase price consisted of approximately \$0.2 million of cash paid at closing and \$4.4 million of contingent consideration payments, resulting in goodwill of \$4.6 million based on the estimated fair values. The contingent payments for this acquisition are based upon achieving various performance milestones over a period of 10 years and are payable in a combination of cash and RSUs.

During 2021, the Company completed three acquisitions that were not considered material, individually or collectively, to the condensed consolidated financial statements during the periods presented. Two acquisitions were completed in the third quarter, while the third acquisition was completed in the fourth quarter. These acquisitions have been included in the condensed consolidated financial statements from the date of acquisition. The purchase price of the acquisition in the fourth quarter consisted of approximately \$0.3 million of cash paid at closing and \$13.0 million of contingent consideration payments, resulting in goodwill of \$13.3 million based on the estimated fair values. The combined purchase price of the two acquisitions in the third quarter consisted of approximately \$12.6 million of contingent consideration payments. The Company recorded other intangible assets of \$1.6 million, with a weighted average useful life of 3.8 years, and goodwill of \$11.0 million based on their estimated fair values. The contingent payments for all three acquisitions are based upon achieving various performance milestones over a period of 10 years and are payable in a combination of cash and RSUs.

During the fourth quarter of 2020, the Company completed two acquisitions that were not considered material, individually or collectively, to the overall consolidated financial statements during the periods presented. These acquisitions have been included in the condensed consolidated financial statements from the date of acquisition. The combined purchase price consisted of approximately \$1.5

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million of cash paid at closing, plus \$0.3 million of other liabilities and \$33.2 million of contingent consideration payments. The contingent payments are based upon achieving various performance milestones over a period of 10 years and are payable in a combination of cash and RSUs. The Company recorded other intangible assets of \$8.8 million, with a weighted average useful life of 4.2 years, and goodwill of \$26.2 million based on their fair values.

NOTE 4. NET SALES

The following table represents net sales by product category:

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Musculoskeletal Solutions	\$ 230,060	\$ 209,478	\$ 681,704	\$ 652,157
Enabling Technologies	24,088	20,243	66,641	55,924
Total net sales	\$ 254,148	\$ 229,721	\$ 748,345	\$ 708,081

NOTE 5. MARKETABLE SECURITIES

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

<i>(In thousands)</i>	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:				
Municipal bonds	\$ 65,662	\$ —	\$ (1,457)	\$ 64,205
Corporate debt securities	191,993	—	(3,646)	188,347
Commercial paper	8,644	—	(12)	8,632
Asset-backed securities	—	—	—	—
Government, federal agency, and other sovereign obligations	9,942	—	(63)	9,879
Total short-term marketable securities	\$ 276,241	\$ —	\$ (5,178)	\$ 271,063
Long-term:				
Municipal bonds	\$ 67,771	\$ —	\$ (2,497)	\$ 65,274
Corporate debt securities	280,053	—	(12,779)	267,274
Asset-backed securities	116,909	—	(3,340)	113,569
Government, federal agency, and other sovereign obligations	59,395	—	(1,547)	57,848
Total long-term marketable securities	\$ 524,128	\$ —	\$ (20,163)	\$ 503,965

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	December 31, 2021			
<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:				
Municipal bonds	\$ 66,379	\$ 99	\$ (11)	\$ 66,467
Corporate debt securities	107,102	434	(65)	107,471
Commercial paper	38,252	2	(1)	38,253
Asset-backed securities	12,931	58	—	12,989
Government, federal agency, and other sovereign obligations	25,231	—	(33)	25,198
Total short-term marketable securities	<u>\$ 249,895</u>	<u>\$ 593</u>	<u>\$ (110)</u>	<u>\$ 250,378</u>
Long-term:				
Municipal bonds	\$ 91,185	\$ 4	\$ (409)	\$ 90,780
Corporate debt securities	324,492	351	(1,318)	323,525
Asset-backed securities	128,139	101	(578)	127,662
Government, federal agency, and other sovereign obligations	20,539	—	(31)	20,508
Total long-term marketable securities	<u>\$ 564,355</u>	<u>\$ 456</u>	<u>\$ (2,336)</u>	<u>\$ 562,475</u>

The short-term marketable securities have effective maturity dates of less than one year and the long-term marketable securities have effective maturity dates ranging from one to three years as of September 30, 2022 and December 31, 2021, respectively.

Purchases of marketable securities include amounts payable to brokers of \$2.2 million as of December 31, 2021. Purchases of marketable securities included no amounts payable to brokers as of September 30, 2022.

NOTE 6. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value on a recurring basis included the following:

<i>(In thousands)</i>	Balance at September 30, 2022	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 2,247	\$ 2,247	\$ —	\$ —
Municipal bonds	129,479	—	129,479	—
Corporate debt securities	455,621	—	455,621	—
Commercial paper	8,632	—	8,632	—
Asset-backed securities	113,569	—	113,569	—
Government, federal agency, and other sovereign obligations	67,727	—	67,727	—
Liabilities:				
Business acquisition liabilities	64,294	—	—	64,294

<i>(In thousands)</i>	Balance at December 31, 2021	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 26,684	\$ 3,768	\$ 22,916	\$ —
Municipal bonds	157,247	—	157,247	—
Corporate debt securities	430,996	—	430,996	—
Commercial paper	38,253	—	38,253	—
Asset-backed securities	140,651	—	140,651	—
Government, federal agency, and other sovereign obligations	45,706	—	45,706	—
Liabilities:				
Business acquisition liabilities	70,525	—	—	70,525

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 yields, broker/dealer quotes and other similar data obtained from quoted market prices or independent pricing vendors.

Assets and Liabilities That Are Measured at Fair Value on a Nonrecurring Basis

Fair value of the revenue-based business acquisition liabilities was determined using a discounted cash flow model and an option pricing model. The significant inputs of such models are not observable in the market, such as certain financial metric growth rates, volatility and discount rates, market price risk adjustment, projections associated with the applicable milestone, the interest rate, and the related probabilities and payment structure in the contingent consideration arrangement.

The following are the significant unobservable inputs used in the two valuation techniques:

Unobservable input	Range		Weighted Average*
Revenue risk premium	2.4%	- 4.9%	3.0%
Revenue volatility	14.0%	- 15.8%	14.9%
Discount rate	3.8%	- 8.5%	6.2%
Projected year of payment	2022	- 2032	

* The weighted average rates were calculated based on the relative fair value of each business acquisition liability.

The change in the carrying value of the business acquisition liabilities during the three and nine months ended September 30, 2022 and 2021, respectively included the following:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning balance	\$ 68,314	\$ 47,995	\$ 70,525	\$ 37,270
Purchase price contingent consideration	—	12,628	4,414	12,628
Contingent cash payments	(2,657)	(1,613)	(7,264)	(4,628)
Contingent RSU grants	(1,116)	(1,311)	(1,532)	(1,671)
Changes in fair value of business acquisition liabilities	(653)	208	(2,043)	14,336
Contractual payable reclassification	406	(65)	194	(93)
Ending balance	\$ 64,294	\$ 57,842	\$ 64,294	\$ 57,842

Changes in the fair value of business acquisition liabilities are driven by changes in market conditions and the achievement of certain performance conditions.

NOTE 7. INVENTORIES

Inventories included the following:

(In thousands)	September 30, 2022	December 31, 2021
Raw materials	\$ 55,961	\$ 41,819
Work in process	20,160	17,401
Finished goods	206,287	177,781
Total inventories	\$ 282,408	\$ 237,001

During the three months ended September 30, 2022 and 2021, net adjustments to cost of sales related to excess and obsolete inventory were \$1.8 million and \$0.6 million, respectively. The net adjustments for the three months ended September 30, 2022 and 2021 reflect a combination of additional expense for excess and obsolete related provisions (\$10.4 million and \$3.8 million, respectively) offset by sales and disposals (\$8.6 million and \$3.2 million, respectively) of inventory for which an excess and obsolete provision was provided previously through expense recognized in prior periods.

During the nine months ended September 30, 2022 and 2021, net adjustments to cost of sales related to excess and obsolete inventory were \$5.9 million and \$5.6 million, respectively. The net adjustments for the nine months ended September 30, 2022 and 2021 reflect a combination of additional expense for excess and obsolete related provisions (\$19.0 million and \$15.2 million, respectively) offset by sales and disposals (\$13.1 million and \$9.6 million, respectively) of inventory for which an excess and obsolete provision was provided previously through expense recognized in prior periods.

NOTE 8. PROPERTY AND EQUIPMENT

Property and equipment included the following:

<i>(In thousands)</i>	Useful Life	September 30, 2022	December 31, 2021
Land	—	\$ 8,248	\$ 8,296
Buildings and improvements	31.5	47,233	44,672
Equipment	5-15	136,717	113,301
Instruments	5	303,656	285,762
Modules and cases	5	46,869	44,185
Other property and equipment	3-5	26,536	30,435
		<u>569,259</u>	<u>526,651</u>
Less: accumulated depreciation		(332,917)	(305,575)
Total		<u>\$ 236,342</u>	<u>\$ 221,076</u>

Instruments are hand-held devices used by surgeons to install implants during surgery. Modules and cases are used to store and transport the instruments and implants.

Depreciation expense related to property and equipment was as follows:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Depreciation	\$ 13,254	\$ 12,178	\$ 38,113	\$ 39,068

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

The change in the carrying amount of goodwill during the twelve months ended December 31, 2021 and the nine months ended September 30, 2022, respectively included the following:

<i>(In thousands)</i>	
December 31, 2020	\$ 156,716
Additions and adjustments	24,251
Foreign exchange	(1,259)
December 31, 2021	<u>179,708</u>
Additions and adjustments	4,589
Foreign exchange	(2,523)
September 30, 2022	<u>\$ 181,774</u>

The composition of intangible assets was as follows:

<i>(In thousands)</i>	Weighted Average Amortization Period (in years)	September 30, 2022		
		Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Supplier network	10.0	\$ 4,000	\$ (3,167)	\$ 833
Customer relationships & other intangibles	6.4	49,640	(37,864)	11,776
Developed technology	8.0	71,401	(34,983)	36,418
Patents	16.0	8,618	(3,588)	5,030
Total intangible assets		<u>\$ 133,659</u>	<u>\$ (79,602)</u>	<u>\$ 54,057</u>

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	Weighted Average Amortization Period (in years)	December 31, 2021		
		Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
<i>(In thousands)</i>				
Supplier network	10.0	\$ 4,000	\$ (2,867)	\$ 1,133
Customer relationships & other intangibles	6.4	56,264	(37,842)	18,422
Developed technology	8.0	71,947	(28,545)	43,402
Patents	16.1	8,938	(3,235)	5,703
Total intangible assets		\$ 141,149	\$ (72,489)	\$ 68,660

The following table summarizes amortization of intangible assets for future periods as of September 30, 2022:

<i>(In thousands)</i>	Annual Amortization
Remaining 2022	\$ 4,359
2023	15,601
2024	13,101
2025	8,815
2026	5,371
Thereafter	6,810
Total	\$ 54,057

NOTE 10. ACCRUED EXPENSES

Accrued expense included the following:

<i>(In thousands)</i>	September 30, 2022	December 31, 2021
Compensation and other employee-related costs	\$ 48,615	\$ 52,407
Legal and other settlements and expenses	4,202	6,124
Accrued non-income taxes	12,738	6,415
Royalties	3,873	4,558
Rebates	9,210	8,725
Other	9,723	12,939
Total accrued expenses	\$ 88,361	\$ 91,168

NOTE 11. DEBT
Line of Credit

In August 2020, we entered into a credit agreement with Citizens Bank, N.A. (the "Credit Agreement") that provides a revolving credit facility permitting borrowings up to \$125.0 million (as amended, the "Revolving Credit Facility"), and has a termination date of August 2, 2023. The Revolving Credit Facility includes up to a \$25.0 million sub limit for letters of credit. Revolving loans under the Credit Agreement will bear interest, at the Company's option, at either a base rate or the Daily Bloomberg Short-Term Bank Yield ("BSBY") (as defined in the Credit Agreement), plus, in each case, an applicable margin, as determined in accordance with the provisions of the Credit Agreement. The base rate will be the highest of: the rate of interest announced publicly by Citizens Bank, N.A. from time to time as its "prime rate"; the federal funds effective rate plus 1/2 of 1%; and the Daily BSBY Rate plus 1%. The applicable margin is subject to adjustment as provided in the Credit Agreement. The Credit Agreement contains financial and other customary covenants, including a maximum leverage ratio. As of September 30, 2022, we have not borrowed under the Credit Agreement.

NOTE 12. EQUITY**Share Repurchases**

On March 11, 2020, the Company announced a share repurchase program, which authorized the Company to repurchase up to \$200 million of the Company's Class A common stock. On March 4, 2022, the share repurchase program was expanded by authorizing the Company to repurchase an additional \$200 million of the Company's Class A common stock. The repurchase program has no time limit and may be suspended for periods or discontinued at any time. As of September 30, 2022, the Company is authorized to repurchase a total of \$150.8 million of Class A common stock. The timing and actual number of shares repurchased will depend on various factors including price, corporate and regulatory requirements, debt covenant requirements, alternative investment opportunities and other market conditions. Funding of share repurchases is expected to come from operating cash flows and excess cash.

Shares repurchased by the Company are accounted for under the constructive retirement method, in which the shares repurchased, are immediately retired, as there is no plan to reissue. The Company made an accounting policy election to charge the excess of repurchase price over par value entirely to retained earnings.

The following table summarizes the activity related to share repurchases:

(In thousands except for per share prices)

Period	Total number of shares repurchased	Average price paid per share	Dollar amount of shares repurchased ⁽¹⁾	Approximate dollar value of shares that may yet be purchased under the plan
January 1, 2020 - March 31, 2020	1,920	\$ 38.49	\$ 73,902	\$ 126,098
April 1, 2020 - June 30, 2020	771	39.95	30,804	95,294
July 1, 2020 - September 30, 2020	—	—	—	95,294
October 1, 2020 - December 31, 2020	—	—	—	95,294
January 1, 2021 - March 31, 2021	—	—	—	95,294
April 1, 2021 - June 30, 2021	—	—	—	95,294
July 1, 2021 - September 30, 2021	—	—	—	95,294
October 1, 2021 - December 31, 2021	—	—	—	95,294
January 1, 2022 - March 31, 2022	—	—	—	295,294
April 1, 2022 - June 30, 2022	2,351	61.45	144,493	150,801
July 1, 2022 - September 30, 2022	—	—	—	\$ 150,801
January 1, 2020 - September 30, 2022	5,042	\$ 49.42	\$ 249,199	

⁽¹⁾ Inclusive of an immaterial amount of commission fees

Common Stock

Our amended and restated Certificate of Incorporation provides for a total of 775,000,000 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"), and 275,000,000 shares are designated as Class B common stock ("Class B Common").

The holders of Class A Common are entitled to one vote for each share of Class A Common held. The holders of Class B Common are entitled to 10 votes for each share of Class B Common held. The holders of Class A Common and Class B Common vote together as one class of common stock on all matters submitted to a vote of stockholders, except as required by law or our amended and restated Certificate of Incorporation. Each share of our Class B Common is convertible at any time at the option of the holder into one share of our Class A Common. In addition, each share of our Class B Common will convert automatically into one share of our Class A Common upon any transfer, whether or not for value, except for permitted transfers. For more details relating to the conversion of our Class B Common please see "Exhibit 4.2, Description of Securities of the Registrant" filed with our Annual Report on Form 10-K on February 17, 2022.

Accumulated Other Comprehensive Income (Loss)

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) for the nine months ended September 30, 2022 and 2021, respectively:

<i>(In thousands)</i>	Unrealized loss on marketable securities, net of tax	Foreign currency translation adjustments	Accumulated other comprehensive loss
Accumulated other comprehensive income/(loss), net of tax, at December 31, 2021	\$ (1,053)	\$ (5,719)	\$ (6,772)
Other comprehensive income/(loss) before reclassifications	(23,959)	(7,215)	(31,174)
Amounts reclassified from accumulated other comprehensive income/(loss), net of tax	5,720	—	5,720
Other comprehensive income/(loss), net of tax	(18,239)	(7,215)	(25,454)
Accumulated other comprehensive income/(loss), net of tax, at September 30, 2022	<u>\$ (19,292)</u>	<u>\$ (12,934)</u>	<u>\$ (32,226)</u>

<i>(In thousands)</i>	Unrealized loss on marketable securities, net of tax	Foreign currency translation adjustments	Accumulated other comprehensive loss
Accumulated other comprehensive income/(loss), net of tax, at December 31, 2020	\$ 5,001	\$ (1,046)	\$ 3,955
Other comprehensive income/(loss) before reclassifications	(4,179)	(3,578)	(7,757)
Amounts reclassified from accumulated other comprehensive income/(loss), net of tax	748	—	748
Other comprehensive income/(loss), net of tax	(3,431)	(3,578)	(7,009)
Accumulated other comprehensive income/(loss), net of tax, at September 30, 2021	<u>\$ 1,570</u>	<u>\$ (4,624)</u>	<u>\$ (3,054)</u>

Amounts reclassified from accumulated other comprehensive loss, net of tax, related to unrealized gains/losses on marketable securities were released to other income, net in our condensed consolidated statements of operations and comprehensive income.

Earnings Per Common Share

The Company computes basic earnings per share using the weighted-average number of common shares outstanding during the period. Diluted earnings per share assumes the conversion, exercise or issuance of all potential common stock equivalents, unless the effect of inclusion would be anti-dilutive. For purposes of this calculation, common stock equivalents include the Company's stock options and unvested RSUs. The contingently issuable shares are included in basic net income per share as of the date that all necessary conditions have been satisfied and are included in the denominator for dilutive calculation for the entire period if such shares would be issuable as of the end of the reporting period assuming the end of the reporting period was the end of the contingency period.

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The following table sets forth the computation of basic and diluted earnings per share:

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Numerator:				
Net income/(loss)	47,431	\$ 47,211	\$ 140,104	\$ 134,085
Denominator for basic and diluted net income per share:				
Weighted average shares outstanding for basic	99,652	101,104	100,638	100,477
Dilutive stock options and RSUs	1,765	3,314	2,151	2,953
Weighted average shares outstanding for diluted	101,417	104,418	102,789	103,430
Earnings per share:				
Basic	0.48	\$ 0.47	\$ 1.39	\$ 1.33
Diluted	0.47	\$ 0.45	\$ 1.36	\$ 1.30
Anti-dilutive stock options and RSUs excluded from the calculation	4,362	1,748	3,720	2,164

NOTE 13. STOCK-BASED AWARDS

We have two stock plans: our 2012 Equity Incentive Plan (the “2012 Plan”) and our 2021 Equity Incentive Plan (the “2021 Plan”), together with the 2012 Plan, the “Plans”. The 2021 Plan is the only active stock plan. The purpose of the 2012 Plan was, and of the 2021 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, which is generally not more than ten years from the grant date. Options granted 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. The 2012 Plan terminated pursuant to its terms in 2022. Following the effectiveness of the 2021 Plan, we have not issued any additional awards under the 2012 Plan; however, awards previously granted under the 2012 Plan remain outstanding and are administered by our Board under the terms and conditions of the 2012 Plan. Under the 2012 Plan, the aggregate number of shares of Class A Common that were able to 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 Equity Incentive 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 were able to be issued or transferred pursuant to incentive stock options under the 2012 Plan was limited to 10,769,230 shares. The shares of Class A Common covered by the 2012 Plan included authorized but unissued shares, treasury shares or shares of common stock purchased on the open market.

The 2021 Plan was approved by our Board in March 2021, and by our stockholders in June 2021. Under the 2021 Plan, as originally approved, the aggregate number of shares of Class A Common that were able to be issued subject to options and other awards was equal to the sum of (i) 2,000,000 shares, (ii) any shares available for issuance under the 2012 Plan as of June 3, 2021 and (iii) any shares underlying awards outstanding under the 2012 Plan or 2021 Plan as of June 3, 2021 that, on or after that date, were forfeited, terminated, expired or lapse for any reason, or were settled for cash without delivery of shares. The number of shares that could be issued or transferred pursuant to incentive stock options under the 2021 Plan was limited to 2,000,000 shares. The shares of Class A Common covered by the 2021 Plan include authorized but unissued shares, treasury shares or shares of common stock purchased on the open market.

On June 2, 2022, the Company’s stockholders approved an amendment to the 2021 Plan (the “2021 Plan Amendment”). The 2021 Plan Amendment increased the number of shares of Class A Common that may be issued or transferred pursuant to awards under the 2021 Plan by 2,000,000 shares to 4,000,000 shares. The 2021 Plan Amendment also increased the aggregate number of shares of Class A Common that may be issued or transferred under the 2021 Plan pursuant to incentive stock options under Section 422 of the Code from 2,000,000 to 4,000,000.

As of September 30, 2022, pursuant to the 2021 Plan, there were 5,649,132 shares of Class A Common reserved and 2,858,843 shares of Class A Common available for future grants.

Stock Options

Stock option activity during the nine months ended September 30, 2022 is summarized as follows:

	Option Shares (thousands)	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value (thousands)
Outstanding at December 31, 2021	9,462	\$ 48.01		
Granted	2,441	63.56		
Exercised	(638)	41.28		
Forfeited	(787)	59.93		
Outstanding at September 30, 2022	10,478	\$ 51.16	6.9	\$ 112,947
Exercisable at September 30, 2022	5,459	\$ 43.40	5.7	\$ 91,874
Expected to vest at September 30, 2022	5,020	\$ 59.61	8.3	\$ 21,072

The total intrinsic value of stock options exercised was \$7.9 million and \$33.8 million during the three months ended September 30, 2022, and 2021, respectively. The total intrinsic value of stock options exercised was \$15.3 million and \$68.9 million during the nine months ended September 30, 2022, and 2021, respectively.

The fair value of the options was estimated on the date of the grant using a Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended					
	2022			2021		
	2022	-	2021	2021	-	2021
Risk-free interest rate	1.46%	-	3.51%	0.40%	-	0.84%
Expected term (years)	4.7	-	9.9	4.8	-	
Expected volatility	33.0%	-	35.0%	33.0%	-	34.0%
Expected dividend yield	—%	-	—%	—%	-	—%

The weighted average grant date fair value of stock options granted during the three months ended September 30, 2022, and 2021 was \$23.16 and \$24.11 per share, respectively. The weighted average grant date fair value of stock options granted during the nine months ended September 30, 2022, and 2021 was \$21.78 and \$20.19 per share, respectively.

Restricted Stock Units

Restricted stock unit activity during the nine months ended September 30, 2022 is summarized as follows:

	Restricted Stock Units (thousands)	Weighted average grant date fair value per share	Weighted average remaining contractual life (years)
Outstanding at December 31, 2021	29	\$ 72.54	
Granted	25	61.13	
Vested	—	—	
Forfeited	—	—	
Outstanding at September 30, 2022	54	\$ 67.20	8.0

Stock-Based Compensation

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Stock-based compensation expense	\$ 8,314	\$ 7,451	\$ 24,303	\$ 22,781
Net stock-based compensation capitalized into inventory	120	170	504	511
Total stock-based compensation cost	<u>\$ 8,434</u>	<u>\$ 7,621</u>	<u>\$ 24,807</u>	<u>\$ 23,292</u>

As of September 30, 2022, there was \$78.8 million of unrecognized compensation expense related to unvested employee stock options that are expected to vest over a weighted average period of approximately three years.

NOTE 14. INCOME TAXES

In computing our income tax provision, we make certain estimates and 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 for the three and nine months ended September 30, 2022 and 2021, respectively:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Effective income tax rate	22.8%	13.3%	22.6%	16.5%

NOTE 15. COMMITMENTS AND CONTINGENCIES

We are involved in a number of proceedings, legal actions, and claims arising in the ordinary course of business. 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 condensed consolidated financial statements for these actions when a loss is considered probable and the amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range, and no amount in the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible, but not probable, and the amount 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. 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.

Moskowitz Family LLC Litigation

On November 20, 2019, Moskowitz Family LLC filed suit against us in the U.S. District Court for the Western District of Texas for patent infringement. Moskowitz, 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 COALITION[®], COALITION MIS[®], COALITION AGX[®], CORBEL[®], MONUMENT[®], MAGNIFY[®]-S, HEDRON IA[™], HEDRON IC[®], INDEPENDENCE[®], INDEPENDENCE MIS[®], INDEPENDENCE MIS AGX[®], FORTIFY[®] and XPAND[®] families, SABLE[®], RISE[®], RISE[®] INTRALIF, RISE[®]-L, ELSA[®], ELSA[®] ATP, ALTERA[®], ARIEL[®], CALIBER[®] and CALIBER[®]-L products. Moskowitz seeks monetary damages and injunctive relief. On July 2, 2020, this suit was transferred from the U.S. District Court for the Western District of Texas to the U.S. District Court for the Eastern District of Pennsylvania. The outcome of this litigation cannot be determined, nor can we estimate a range of potential loss, therefore, we have not recorded a liability related to this litigation as of September 30, 2022.

NOTE 16. SEGMENT AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. We manage our business globally within one operating segment, and segment information is consistent with how the chief operating decision makers review the business, make investing and resource allocation decisions and assess operating performance.

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

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
United States	\$ 217,024	\$ 198,172	\$ 638,707	\$ 606,608
International	37,124	31,549	109,638	101,473
Total net sales	<u>\$ 254,148</u>	<u>\$ 229,721</u>	<u>\$ 748,345</u>	<u>\$ 708,081</u>

NOTE 17. SUBSEQUENT EVENT

On October 11, 2022, the Company acquired the membership interests of Harvest Biologics, LLC, which engages in the business of selling systems that produce autologous biologics. The purchase price is a cash payment of \$30 million, subject to post-closing adjustments, if applicable.

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 in conjunction with our unaudited condensed consolidated financial statements and related notes that appear in Item 1 of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes for the year ended December 31, 2021, which are included in our Annual Report on Form 10-K filed with the SEC on February 17, 2022.

Overview

Globus Medical, Inc. (together, as applicable, with its consolidated subsidiaries, “Globus,” “we,” “us” or “our”), headquartered in Audubon, Pennsylvania, is a medical device company that develops and commercializes healthcare solutions and whose mission is to improve the quality of life of patients with musculoskeletal disorders. Founded in 2003, Globus is committed to medical device innovation and delivering exceptional service to hospitals, ambulatory surgery centers and physicians to advance patient care and improve efficiency. Since inception, Globus has listened to the voice of the surgeon to develop practical solutions and products to help surgeons effectively treat patients and improve lives.

Globus is an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures to address treatment challenges. With over 220 product launches to date, we offer a comprehensive portfolio of innovative and differentiated technologies that are used to treat a variety of musculoskeletal conditions. Although we manage our business globally within one operating segment, we separate our products into two major categories: Musculoskeletal Solutions and Enabling Technologies.

COVID-19 Update

We continue to monitor the rapidly evolving situation and guidance from international and domestic authorities, including federal, state and local public health authorities, regarding the COVID-19 pandemic, and we may need to make changes to our business based on their recommendations. Under these circumstances, there may be developments outside our control requiring us to adjust our operating plan. As such, given the dynamic nature of this situation, the Company cannot reasonably estimate the impacts of COVID-19 on our financial condition, results of operations or cash flows in the future. However, if a resurgence of COVID-19 infections occurs and governments mandate restrictions, including restrictions on elective surgeries, we do expect that it could have a material adverse impact on our revenue growth, operating profit and cash flow, revised payment terms with certain of our customers, and a change in effective tax rate driven by changes in the mix of earnings across the Company’s jurisdictions.

We are focused on navigating these recent challenges presented by COVID-19 and believe we are in a strong position to continue to sustain and grow our business.

Product Categories

While we group our products into two categories, Musculoskeletal Solutions and Enabling Technologies, they are not limited to a particular technology, platform or surgical approach. Instead, our goal is to offer a comprehensive product suite that can be used to safely and effectively treat patients based on their specific anatomy and condition, and is customized to the surgeon’s training and surgical preference.

Musculoskeletal Solutions

Our Musculoskeletal Solutions consist primarily of implantable devices, biologics, accessories, and unique surgical instruments used in an expansive range of spinal, orthopedic and neurosurgical procedures. Musculoskeletal disorders are a leading driver of healthcare costs worldwide. Disorders range in severity from mild pain and loss of feeling to extreme pain and paralysis. These disorders are primarily caused by degenerative and congenital conditions, deformity, tumors and traumatic injuries. Treatment alternatives for musculoskeletal disorders range from non-operative conservative therapies to surgical interventions depending on the pathology. Conservative therapies include bed rest, medication, casting, bracing, and physical therapy. When conservative therapies are not indicated, or fail to provide adequate quality of life improvements, surgical interventions may be used. Surgical treatments for musculoskeletal disorders can be instrumented, which include the use of implants, or non-instrumented, which forego the use of hardware but may include biologics.

Enabling Technologies

Our Enabling Technologies are comprised of imaging, navigation and robotics (“INR”) solutions for assisted surgery which are advanced computer-assisted intelligent systems designed to enhance a surgeon’s capabilities, and ultimately improve patient care and reduce radiation exposure for all involved, by streamlining surgical procedures to be safer, less invasive, and more accurate. The

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

market for our Enabling Technologies in spine and orthopedic surgery is still in its infancy stage and consists primarily of imaging, navigation and robotic systems. In spine, a majority of these technologies are limited to surgical planning and assistance in implant placement for increased accuracy and time savings with less intraoperative radiation exposure to the patient and surgical staff. As our Enabling Technologies become more fully integrated with our Musculoskeletal Solutions, a continued rise in adoption is expected. Furthermore, we believe as new technologies such as augmented reality and artificial intelligence are introduced, Enabling Technologies have the potential to transform the way surgery is performed and most importantly, continue to improve patient outcomes.

Geographic Information

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 exclusive independent distributors, who distribute our products 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, 2022, international net sales accounted for approximately 14.7% of our total net sales. We have sold our products in approximately 50 countries other than the United States through a combination of sales representatives employed by us and exclusive 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 through the commercialization of additional products.

Seasonality

Our business is generally not seasonal in nature. However, sales of our Musculoskeletal Solutions products may be influenced by summer vacation and winter holiday periods during which we have experienced fewer surgeries taking place, as well as more surgeries taking place later in the year when patients have met the deductibles under insurance plans. Sales of our Enabling Technologies products may be influenced by longer capital purchase cycles and the timing of budget approvals for major capital purchases.

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements requires us to make assumptions, estimates and judgments that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of sales and expenses during the reporting periods. There have been no material changes to the critical accounting policies and estimates as previously disclosed in Part II, Item 7 of our [Annual Report on Form 10-K for the year-ended December 31, 2021](#).

Results of Operations**Three Months Ended September 30, 2022 Compared to the Three Months Ended September 30, 2021***Net Sales*

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

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,			
	2022	2021	\$	%
United States	\$ 217,024	\$ 198,172	\$ 18,852	9.5%
International	37,124	31,549	5,575	17.7%
Total net sales	\$ 254,148	\$ 229,721	\$ 24,427	10.6%

In the United States, the increase in net sales of \$18.9 million for the three month period ended September 30, 2022 was due to an increase in spine product sales, including robotic instruments, resulting from penetration in existing territories and sales volume of enabling technologies.

International net sales increased by \$5.6 million for the three month period ended September 30, 2022 due to an increase in spine product sales, including robotic instruments, resulting from penetration in existing territories, and sales volume of enabling technologies, partially offset by lower sales in Japan due to the transition of our sales force composition.

Cost of Goods Sold

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Cost of goods sold	\$ 65,497	\$ 58,554	\$ 6,943	11.9%
Percentage of net sales	25.8%	25.5%		

The \$6.9 million increase in cost of goods sold was primarily due to increased volume, higher inventory reserves and unfavorable freight trends, partially offset by lower inventory write-offs.

Research and Development Expenses

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Research and development	\$ 18,701	\$ 15,853	\$ 2,848	18.0%
Percentage of net sales	7.4%	6.9%		

The \$2.8 million increase in research and development expenses was primarily due to an increase in personnel related expenses due to our continued investment in product development.

Selling, General and Administrative Expenses

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Selling, general and administrative	\$ 106,576	\$ 96,444	\$ 10,132	10.5%
Percentage of net sales	41.9%	42.0%		

The \$10.1 million increase in selling, general and administrative expenses was primarily due to an increase in commission expenses resulting from higher product sales and travel and meeting expenses for the three month period ended September 30, 2022 compared to the three month period ended September 30, 2021.

Provision for Litigation

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Provision for litigation	\$ —	\$ 605	\$ (605)	-100.0%
Percentage of net sales	0.0%	0.3%		

The provision for litigation was immaterial for the three month periods ended September 30, 2022 and 2021.

Amortization of Intangibles

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Amortization of intangibles	\$ 4,324	\$ 4,573	\$ (249)	-5.4%
Percentage of net sales	1.7%	2.0%		

The decrease in the amortization of intangibles is primarily due to individual intangible assets reaching their full amortization.

Acquisition Related Costs

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,			
	2022	2021	\$	%
Acquisition related costs	\$ (652)	\$ 363	\$ (1,015)	-279.6%
Percentage of net sales	-0.3%	0.2%		

The decrease in acquisition related costs is due to changes in fair value of business acquisition liabilities.

Other Income/(expense), Net

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,			
	2022	2021	\$	%
Other income/(expense), net	\$ 1,763	\$ 1,123	\$ 640	57.0%
Percentage of net sales	0.7%	0.5%		

The increase in other income/(expense) is due to an increase in interest income partially offset by change in foreign exchange rates.

Income Tax Provision

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	September 30,			
	2022	2021	\$	%
Income tax provision	\$ 14,034	\$ 7,241	\$ 6,793	93.8%
Effective income tax rate	22.8%	13.3%		

The increase in the effective income tax rate was primarily due to the lower impact of stock option exercises.

A discussion of our Results of Operations for the three months ended September 30, 2021 can be found in “**Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations; Three Months Ended September 30, 2021 Compared to the Three Months Ended September 30, 2020.**” on our [Form 10-Q filed on November 4, 2021](#).

Nine Months Ended September 30, 2022 Compared to the Nine Months Ended September 30, 2021

Net Sales

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

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
United States	\$ 638,707	\$ 606,608	\$ 32,099	5.3%
International	109,638	101,473	8,165	8.0%
Total net sales	\$ 748,345	\$ 708,081	\$ 40,264	5.7%

In the United States, the increase in net sales of \$32.1 million was due primarily to increased spine product sales, including robotic spine instruments, resulting from penetration in existing territories and an increase in sales volume of enabling technologies.

International net sales increased by \$8.2 million, which was due primarily to increased spine product sales, including robotic spine instruments, resulting from penetration in existing territories and an increase in sales volume of enabling technologies, partially offset by lower sales in Japan due to the transition of our sales force composition.

Cost of Goods Sold

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Cost of goods sold	\$ 193,134	\$ 177,427	\$ 15,707	8.9%
Percentage of net sales	25.8%	25.1%		

The \$15.7 million increase in cost of goods sold was primarily due to increased volume, unfavorable freight trends and production variances, partially offset by lower inventory write-offs and lower depreciation.

Research and Development Expenses

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Research and development	\$ 53,508	\$ 46,324	\$ 7,184	15.5%
Percentage of net sales	7.2%	6.5%		

The \$7.2 million increase in research and development expenses was primarily due to an increase in personnel related expenses due to our continued investment in product development.

Selling, General and Administrative Expenses

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Selling, general and administrative	\$ 314,042	\$ 301,589	\$ 12,453	4.1%
Percentage of net sales	42.0%	42.6%		

The \$12.5 million increase in selling, general and administrative expenses was primarily due to an increase in travel and meeting expenses and an increase in commission expenses resulting from higher product sales, partially offset by a decrease in employee benefit costs.

Provision for Litigation

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Provision for litigation	\$ 2,341	\$ 511	\$ 1,830	358.1%
Percentage of net sales	0.3%	0.1%		

The provision for litigation for the nine month period ended September 30, 2022 includes a legal settlement and for the period ended September 30, 2021 includes a receipt of a settlement.

Amortization of Intangibles

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Amortization of intangibles	\$ 13,229	\$ 13,970	\$ (741)	-5.3%
Percentage of net sales	1.8%	2.0%		

The decrease in the amortization of intangibles is primarily due to individual intangible assets reaching their full amortization.

Acquisition Related Costs

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Acquisition related costs	\$ (1,832)	\$ 14,507	\$ (16,339)	-112.6%
Percentage of net sales	-0.2%	2.0%		

Acquisition related costs decreased due to favorable changes in fair value of business acquisition liabilities during the nine months ended September 30, 2022 compared to unfavorable changes in fair value of business acquisition liabilities during the nine months ended September 30, 2021.

Other Income/(expense), Net

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Other income, net	\$ 6,980	\$ 6,826	\$ 154	2.3%
Percentage of net sales	0.9%	1.0%		

The increase in other income/(expense) is due to an increase in interest income and a reimbursement for damaged inventory and instrumentation, partially offset by change in foreign exchange rates.

Income Tax Provision

<i>(In thousands, except percentages)</i>	Nine Months Ended		Change	
	September 30,		\$	%
	2022	2021		
Income tax provision	\$ 40,799	\$ 26,494	\$ 14,305	54.0%
Effective income tax rate	22.6%	16.5%		

The increase in the effective income tax rate was primarily due to the lower impact of stock option exercises.

A discussion of our Results of Operations for the nine months ended September 30, 2021 can be found in “**Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations; Nine Months Ended September 30, 2021 Compared to the Nine Months Ended September 30, 2020.**” on our [Form 10-Q filed on November 4, 2021](#).

Liquidity and Capital Resources

Our principal source of liquidity is cash flow from operating activities as well as our cash and cash equivalents and marketable securities, which we believe will provide sufficient funding for us to meet our liquidity requirements for the foreseeable future. Our principal liquidity requirements are to fund working capital, research and development, including clinical trials, capital expenditures primarily related to investment in 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. To the extent that we require new sources of liquidity, we may consider incurring debt, including borrowing against our existing credit facility, convertible debt instruments, and/or raising additional funds through an equity offering. 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.

In August 2020, we entered into the Credit Agreement with Citizens Bank, N.A. which provides a Revolving Credit Facility permitting borrowings up to \$125.0 million. As amended, the Credit Agreement has a termination date of August 2, 2023. The Revolving Credit Facility includes up to a \$25.0 million sub limit for letters of credit. As of September 30, 2022, we have not borrowed under the Credit Agreement.

Cash Flows

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

<i>(In thousands)</i>	Nine Months Ended September 30,		2022-2021 Change
	2022	2021	\$
Net cash provided by/(used in) operating activities	\$ 114,493	\$ 200,021	\$ (85,528)
Net cash provided by/(used in) investing activities	(49,878)	(132,142)	82,264
Net cash provided by/(used in) financing activities	(123,553)	55,170	(178,723)
Effect of foreign exchange rate changes on cash	92	(570)	662
Increase (decrease) in cash and cash equivalents	<u>\$ (58,846)</u>	<u>\$ 122,479</u>	<u>\$ (181,325)</u>

Cash Provided by Operating Activities

The net cash provided by operating activities for the nine months ended September 30, 2022 was primarily cash flow from net income and favorable changes in accounts payable, partially offset by outflows for inventories and unfavorable changes in accounts receivables and prepaid expenses and other assets.

Cash Used in Investing Activities

The cash used in investing activities for the nine months ended September 30, 2022 was primarily from purchases of property and equipment partially offset by the net inflows of purchases, maturities and sales of marketable securities.

Cash Used in Financing Activities

The net cash used in financing activities for the nine months ended September 30, 2022 was primarily the result of the repurchased Class A common stock partially offset by inflows from proceeds from exercise of stock options.

A discussion of our Cash Flows for the nine months ended September 30, 2021 can be found in “**Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations; Cash Flows.**” on our [Form 10-Q filed on November 4, 2021](#).

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations during the nine months ended September 30, 2022.

Backlog

We work closely with our suppliers to ensure that our inventory needs are met while maintaining high quality and reliability. To date, we have experienced delays in locating and obtaining the materials necessary to fulfill our production requirements, which has extended our lead times but has not caused a meaningful backlog of sales orders. Despite the current delays, which we believe are primarily driven by the dynamic nature of COVID-19 and geopolitical impacts on the global supply chain, we believe our supplier relationships and facilities will support our capacity needs for the foreseeable future for Musculoskeletal Solutions. However, it is possible that the impacts of COVID-19 and geopolitical disruptions could cause a backlog of sales orders for Musculoskeletal Solutions products. The delays experienced for sourcing certain components of Enabling Technology products may cause a backlog of sales orders in the foreseeable future.

A majority of our product inventory is held primarily with our sales representatives and at hospitals throughout the United States. We stock inventory in our warehouse facilities and retain title to consigned inventory which is maintained with our field representatives and hospitals in sufficient quantities so that products are available when needed for surgical procedures. Safety stock levels are determined based on a number of factors, including demand, manufacturing lead times, and quantities required to maintain service levels.

Recently Issued Accounting Pronouncements

For further details on recently issued accounting pronouncements, please refer to “**Part I; Item 1. Financial Statements; Notes to Condensed Consolidated Financial Statements (Unaudited); Note 2. Summary of Significant Accounting Policies; (k) 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,” “plan” and 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, health epidemics, pandemics and similar outbreaks, including the COVID-19 pandemic, factors affecting our quarterly results, our ability to manage our growth, our ability to sustain our profitability, demand for our products, our ability to compete successfully (including without limitation our ability to convince surgeons to use our products and our ability to attract and retain sales and other personnel), our ability to rapidly develop and introduce new products, our ability to develop and execute on successful business strategies, our ability to comply with changes and applicable laws and regulations that are applicable to our businesses, our ability to safeguard our intellectual property, our success in defending legal proceedings brought against us, trends in the medical device industry, and general economic conditions, and other risks set forth throughout our [Annual Report on Form 10-K for the year ended December 31, 2021](#), particularly those set forth under “**Item 1. Business,**” “**Item 1A. Risk Factors,**” “**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,**” and “**Item 7A. Quantitative and Qualitative Disclosure About Market Risk**”, and those discussed in other documents we file with the U.S. 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 for the year ended December 31, 2021](#) 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, 2022. 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, 2022, 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 were no changes 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, 2022 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 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.

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 Condensed Consolidated Financial Statements (Unaudited); Note 15. Commitments and Contingencies**” above.

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

Item 1A. Risk Factors

Not applicable.

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.

Item 6. Exhibits

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

Exhibit No.	Item
10.1*	Second Amendment to Credit Agreement, dated as of August 3, 2022, by and among Globus Medical, Inc., Globus Medical North America, Inc., and Citizens Banks, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q filed on August 4, 2022). ***
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 – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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- * Filed herewith.
 - ** Furnished herewith.
 - *** Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish on a supplemental basis a copy of the omitted schedules and exhibits to the Commission upon request.

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 8, 2022

/s/ DANIEL T. SCAVILLA

Daniel T. Scavilla
Chief Executive Officer
President
(Principal Executive Officer)

Dated: November 8, 2022

/s/ KEITH PFEIL

Keith Pfeil
Chief Financial Officer
Chief Accounting Officer
Senior Vice President
(Principal Financial Officer)

**Certification By Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Daniel T. Scavilla, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Globus Medical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

/s/ DANIEL T. SCAVILLA

Daniel T. Scavilla
Chief Executive Officer
President

**Certification By Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Keith Pfeil, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Globus Medical, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2022

/s/ KEITH PFEIL

Keith Pfeil
Chief Financial Officer
Senior Vice President

**Certification Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), Daniel T. Scavilla, Chief Executive Officer, and Keith Pfeil, Senior Vice President and Chief Financial Officer of Globus Medical, Inc. (the "Company"), each certifies with respect to the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2022 (the "Report") that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2022

/s/ DANIEL T. SCAVILLA

Daniel T. Scavilla
Chief Executive Officer
President

Date: November 8, 2022

/s/ KEITH PFEIL

Keith Pfeil
Chief Financial Officer
Senior Vice President

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.
