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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2015
**Or**
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

**Commission File No. 001-35621**

## GLOBUS MEDICAL, INC.

(Exact name of registrant as specified in its charter)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

Yes ☒ No ☐

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

| | |
|---|---|
| Large Accelerated Filer ☒ | Accelerated Filer ☐ |
| Non-accelerated Filer ☐ (Do not check if a smaller reporting company) | Smaller Reporting Company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes ☐ No ☒

The number of shares outstanding of the issuer's common stock (par value $0.001 per share) as of October 23, 2015 was 95,235,193 shares.

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

## Item 1. Financial Statements

### GLOBUS MEDICAL, INC. AND SUBSIDIARIES
### CONSOLIDATED BALANCE SHEETS

| *(In thousands, except par value)* | September 30, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | **$ 50,501** | $ 82,265 |
| Restricted cash | **25,385** | 23,370 |
| Short-term marketable securities | **188,101** | 146,439 |
| Accounts receivable, net of allowances of $2,224 and $1,647, respectively | **77,596** | 75,430 |
| Inventories | **105,705** | 90,945 |
| Prepaid expenses and other current assets | **7,107** | 5,742 |
| Income taxes receivable | **7,995** | 5,772 |
| Deferred income taxes | **43,918** | 40,062 |
| **Total current assets** | **506,308** | 470,025 |
| Property and equipment, net of accumulated depreciation of $134,108 and $118,544, respectively | **106,180** | 69,475 |
| Long-term marketable securities | **61,525** | 75,347 |
| Intangible assets, net | **33,635** | 34,529 |
| Goodwill | **91,964** | 53,196 |
| Other assets | **1,049** | 975 |
| **Total assets** | **$ 800,661** | $ 703,547 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | **$ 16,358** | $ 15,904 |
| Accounts payable to related-party | **—** | 5,359 |
| Accrued expenses | **64,169** | 61,499 |
| Income taxes payable | **550** | 569 |
| Business acquisition liabilities, current | **13,342** | 6,081 |
| **Total current liabilities** | **94,419** | 89,412 |
| Business acquisition liabilities, net of current portion | **20,732** | 20,195 |
| Deferred income taxes | **8,193** | 5,166 |
| Other liabilities | **3,400** | 3,320 |
| **Total liabilities** | **126,744** | 118,093 |
| **Commitments and contingencies (Note 12)** | | |
| **Equity:** | | |
| Class A common stock; $0.001 par value. Authorized 500,000 shares; issued and outstanding 71,348 and 70,828 shares at September 30, 2015 and December 31, 2014, respectively | **71** | 71 |
| Class B common stock; $0.001 par value. Authorized 275,000 shares; issued and outstanding 23,878 at September 30, 2015 and December 31, 2014, respectively | **24** | 24 |
| Additional paid-in capital | **188,603** | 175,242 |
| Accumulated other comprehensive loss | **(1,738)** | (1,657) |
| Retained earnings | **486,957** | 411,774 |
| **Total equity** | **673,917** | 585,454 |
| **Total liabilities and equity** | **$ 800,661** | $ 703,547 |

See accompanying notes to consolidated financial statements.

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

| *(In thousands, except per share amounts)* | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| **Sales** | **$ 136,992** | $ 117,787 | **$ 402,166** | $ 345,570 |
| Cost of goods sold | **33,052** | 27,686 | **97,738** | 79,581 |
| **Gross profit** | **103,940** | 90,101 | **304,428** | 265,989 |
| | | | | |
| **Operating expenses:** | | | | |
| Research and development | **9,409** | 8,146 | **27,146** | 23,283 |
| Selling, general and administrative | **53,829** | 46,986 | **160,624** | 140,089 |
| Provision for litigation | **27** | 46 | **433** | 3,899 |
| **Total operating expenses** | **63,265** | 55,178 | **188,203** | 167,271 |
| | | | | |
| **Operating income** | **40,675** | 34,923 | **116,225** | 98,718 |
| | | | | |
| **Other income/(expense), net** | | | | |
| Interest income, net | **342** | 181 | **898** | 577 |
| Foreign currency transaction loss | **(205)** | (388) | **(869)** | (444) |
| Other income | **116** | 83 | **318** | 313 |
| **Total other income/(expense), net** | **253** | (124) | **347** | 446 |
| | | | | |
| **Income before income taxes** | **40,928** | 34,799 | **116,572** | 99,164 |
| Income tax provision | **14,447** | 11,738 | **41,389** | 34,317 |
| | | | | |
| **Net income** | **$ 26,481** | $ 23,061 | **$ 75,183** | $ 64,847 |
| | | | | |
| **Earnings per share:** | | | | |
| Basic | **$ 0.28** | $ 0.24 | **$ 0.79** | $ 0.69 |
| Diluted | **$ 0.28** | $ 0.24 | **$ 0.78** | $ 0.68 |
| **Weighted average shares outstanding:** | | | | |
| Basic | **95,138** | 94,399 | **94,970** | 94,111 |
| Dilutive stock options | **981** | 1,076 | **1,056** | 1,267 |
| Diluted | **96,119** | 95,475 | **96,026** | 95,378 |
| | | | | |
| Anti-dilutive stock equivalents excluded from weighted average calculation | **3,234** | 1,660 | **3,118** | 1,518 |

See accompanying notes to consolidated financial statements.

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

| *(In thousands)* | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **September 30, 2015** | **September 30, 2014** | **September 30, 2015** | **September 30, 2014** |
| **Net income** | **$ 26,481** | $ 23,061 | **$ 75,183** | $ 64,847 |
| Other comprehensive income/(loss): | | | | |
| Unrealized gain/(loss) on marketable securities, net of tax | **75** | (18) | **103** | (8) |
| Foreign currency translation loss | **(124)** | (422) | **(184)** | (290) |
| Total other comprehensive loss | **(49)** | (440) | **(81)** | (298) |
| Comprehensive income | **$ 26,432** | $ 22,621 | **$ 75,102** | $ 64,549 |

See accompanying notes to consolidated financial statements.

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

| *(In thousands)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | **$ 75,183** | $ 64,847 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | **17,669** | 16,057 |
| Amortization of premium on marketable securities | **2,352** | 2,073 |
| Write-down for excess and obsolete inventories | **7,122** | 5,439 |
| Stock-based compensation expense | **6,935** | 5,211 |
| Excess tax benefit related to nonqualified stock options | **(1,973)** | (4,044) |
| Allowance for doubtful accounts | **957** | 236 |
| Change in deferred income taxes | **(4,115)** | (5,115) |
| Increase in: | | |
| Restricted cash | **(2,015)** | — |
| Accounts receivable | **(3,468)** | (886) |
| Inventories | **(16,998)** | (12,535) |
| Prepaid expenses and other assets | **(1,368)** | (1,325) |
| Increase/(decrease) in: | | |
| Accounts payable | **(2,812)** | (2,253) |
| Accounts payable to related-party | **(5,359)** | 1,289 |
| Accrued expenses and other liabilities | **6,042** | 3,855 |
| Income taxes payable/receivable | **(275)** | 4,378 |
| **Net cash provided by operating activities** | **77,877** | 77,227 |
| **Cash flows from investing activities:** | | |
| Purchases of marketable securities | **(207,407)** | (161,149) |
| Maturities of marketable securities | **131,318** | 144,207 |
| Sales of marketable securities | **46,064** | 24,028 |
| Purchases of property and equipment | **(36,606)** | (15,659) |
| Acquisition of businesses, net of cash acquired | **(48,513)** | — |
| **Net cash used in investing activities** | **(115,144)** | (8,573) |
| **Cash flows from financing activities:** | | |
| Payment of business acquisition liabilities | **(900)** | (900) |
| Proceeds from exercise of stock options | **4,313** | 7,644 |
| Excess tax benefit related to nonqualified stock options | **1,973** | 4,044 |
| **Net cash provided by financing activities** | **5,386** | 10,788 |
| Effect of foreign exchange rate on cash | **117** | 45 |
| **Net increase/(decrease) in cash and cash equivalents** | **(31,764)** | 79,487 |
| Cash and cash equivalents, beginning of period | **82,265** | 89,962 |
| **Cash and cash equivalents, end of period** | **$ 50,501** | $ 169,449 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | **9** | 32 |
| Income taxes paid | **45,955** | 36,362 |

See accompanying notes to consolidated financial statements.

## NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) The Company*

Globus Medical, Inc., together with its subsidiaries, is a medical device company focused on the design, development and commercialization of musculoskeletal implants. We are currently focused on implants that promote healing in patients with spine disorders. We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures that assist surgeons in effectively treating their patients, respond to evolving surgeon needs and address new treatment options. Since our inception in 2003, we have launched over 150 products and offer a product portfolio addressing a broad array of spinal pathologies.

We are headquartered in Audubon, Pennsylvania, and market and sell our products through our exclusive sales force in the United States, as well as within North, Central & South America, Europe, Asia, Africa and Australia. Our sales force consists of direct sales representatives and distributor sales representatives employed by exclusive independent distributors.

The terms "the Company," "Globus," "we," "us" and "our" refer to Globus Medical, Inc. and, where applicable, our consolidated subsidiaries.

### *(b) Basis of Presentation*

The accompanying interim unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in complete financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2014.

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

### *(c) Principles of Consolidation*

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

### *(d) Use of Estimates*

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates, in part, on historical experience that management believes to be reasonable under the circumstances. Actual results

could differ materially from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

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

***(e) Restricted Cash***

In December 2014, we set aside cash for the payment of a portion of the Synthes and Bianco litigations. We classified this cash as restricted, as the amount was placed in escrow to be used for payment of the litigation obligations, should we not be successful with our appeals. As of September 30, 2015, we have $25.4 million of restricted cash related to these matters. See **"Note 12. Commitments and Contingencies"** below for more details regarding these litigations.

***(f) Marketable Securities***

Our marketable securities include municipal bonds, corporate debt securities, commercial paper, securities of U.S. government-sponsored agencies and asset-backed securities, and are classified as available-for-sale as of September 30, 2015. Available-for-sale securities are recorded at fair value in both short-term and long-term marketable securities on our consolidated balance sheets. The change in fair value for available-for-sale securities is recorded, net of taxes, as a component of accumulated other comprehensive loss on our consolidated balance sheets. Premiums and discounts are recognized over the life of the related security as an adjustment to yield using the straight-line method. Realized gains or losses from the sale of our marketable securities are determined on a specific identification basis. Realized gains and losses, along with interest income and the amortization/accretion of premiums/discounts are included as a component of other income, net, on our consolidated statements of income. Interest receivable is recorded as a component of prepaid expenses and other current assets on our consolidated balance sheets.

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

***(g) Inventories***

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

***(h) Revenue Recognition***

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

***(i) Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board released Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions. Under the new standard, an entity will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures and provide more comprehensive guidance for transactions such as service revenue and contract modifications. The standard was to take effect for public companies for annual reporting periods beginning after December 15, 2016, and early adoption was prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption.

In August 2015, the FASB released ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 by one year while providing the option to early adopt the standard on the original effective date. We are currently evaluating the timing and impact of the new standard on our financial position, results of operations, and disclosures.

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

In September 2015, the FASB released ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to the issuance of the standard, entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendments in ASU 2015-16 require an entity to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings

by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The update is not expected to have a material impact on our financial position, results of operations, and disclosures.

## NOTE 2. ACQUISITIONS

***Branch Medical Group, Inc.***

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

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

We accounted for the acquisition under the purchase method of accounting, and as a result, recorded goodwill of $39.0 million. The results of operations of BMG have been included in our results of operations from the date of acquisition. Amounts recognized for assets acquired and liabilities assumed are based on purchase price allocations and on certain management judgments. These allocations are based on an analysis of the estimated fair values of assets acquired and liabilities assumed, including identifiable tangible assets, and estimates of the useful lives of tangible assets. We completed our final purchase price allocations during September 2015. The goodwill from this acquisition is not deductible for tax purposes.

As of September 30, 2015, we recorded the following purchase price allocation for the identifiable tangible and intangible assets and liabilities of BMG:

| *(In thousands)* | |
|---|---|
| Consideration: | |
| Cash paid at closing | $ 57,042 |
| Deferred consideration | 5,290 |
| Closing adjustments payable | 944 |
| Fair value of consideration | $ 63,276 |
| | |
| Identifiable assets acquired and liabilities assumed: | |
| Cash acquired | $ 9,026 |
| Accounts receivable | 88 |
| Inventory | 4,753 |
| Other assets | 444 |
| Property and equipment | 14,862 |
| Accounts payable and accrued expenses | (1,585) |
| Deferred tax liability, net | (3,280) |
| Total identifiable net assets | 24,308 |
| | |
| Goodwill | 38,968 |
| Total allocated purchase price | $ 63,276 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *(pro forma, in thousands, except per share amounts)* | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Net sales | **$ 136,953** | $ 117,802 | **$ 401,993** | $ 345,743 |
| Net income | **27,191** | 23,226 | **77,358** | 65,011 |
| | | | | |
| Earnings per share: | | | | |
| Basic | **$ 0.29** | $ 0.25 | **$ 0.81** | $ 0.69 |
| Diluted | **$ 0.28** | $ 0.24 | **$ 0.81** | $ 0.68 |

***Transplant Technologies of Texas, Ltd.***

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

## NOTE 3. INTANGIBLE ASSETS

A summary of intangible assets is presented below:

| | | September 30, 2015 | | |
|---|---|---|---|---|
| *(In thousands)* | Weighted Average Amortization Period (in years) | Gross Carrying Amount | Accumulated Amortization | Intangible Assets, net |
| In-process research & development | — | $ 24,560 | $ — | $ 24,560 |
| Supplier network | 10.0 | 4,000 | (367) | 3,633 |
| Customer relationships & other intangibles | 7.3 | 5,525 | (2,127) | 3,398 |
| Patents | 17.0 | 2,495 | (451) | 2,044 |
| Total intangible assets | | $ 36,580 | $ (2,945) | $ 33,635 |

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

## NOTE 4. MARKETABLE SECURITIES

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

| | | September 30, 2015 | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Contractual Maturity (in years) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Short-term: | | | | | |
| Municipal bonds | Less than 1 | $ 85,582 | $ 36 | $ (9) | $ 85,609 |
| Corporate debt securities | Less than 1 | 55,019 | 9 | (10) | 55,018 |
| Commercial paper | Less than 1 | 42,454 | 12 | — | 42,466 |
| Securities of U.S. government-sponsored agencies | Less than 1 | 3,000 | 2 | — | 3,002 |
| Asset-backed securities | Less than 1 | 2,007 | — | (1) | 2,006 |
| Total short-term marketable securities | | $ 188,062 | $ 59 | $ (20) | $ 188,101 |
| | | | | | |
| Long-term: | | | | | |
| Municipal bonds | 1-2 | $ 23,858 | $ 25 | $ (16) | $ 23,867 |
| Corporate debt securities | 1-2 | 11,532 | 7 | (4) | 11,535 |
| Asset-backed securities | 1-2 | 24,092 | 9 | (4) | 24,097 |
| Securities of U.S. government-sponsored agencies | 1-2 | 2,022 | 4 | — | 2,026 |
| Total long-term marketable securities | | $ 61,504 | $ 45 | $ (24) | $ 61,525 |

| | | December 31, 2014 | | | |
|---|---|---|---|---|---|
| *(In thousands)* | Contractual Maturity (in years) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Short-term: | | | | | |
| Municipal bonds | Less than 1 | $ 28,684 | $ 2 | $ (3) | $ 28,683 |
| Corporate debt securities | Less than 1 | 73,066 | 7 | (42) | 73,031 |
| Commercial paper | Less than 1 | 44,663 | 8 | — | 44,671 |
| Asset-backed securities | Less than 1 | 54 | — | — | 54 |
| Total short-term marketable securities | | $ 146,467 | $ 17 | $ (45) | $ 146,439 |
| | | | | | |
| Long-term: | | | | | |
| Municipal bonds | 1-2 | $ 26,005 | $ 3 | $ (36) | $ 25,972 |
| Corporate debt securities | 1-2 | 19,617 | 3 | (22) | 19,598 |
| Asset-backed securities | 1-2 | 21,236 | 1 | (8) | 21,229 |
| Securities of U.S. government-sponsored agencies | 1-2 | 8,564 | — | (16) | 8,548 |
| Total long-term marketable securities | | $ 75,422 | $ 7 | $ (82) | $ 75,347 |

## NOTE 5. FAIR VALUE MEASUREMENTS

Under the accounting for fair value measurements and disclosures, fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most

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

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

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

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

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

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

| *(In thousands)* | Balance at September 30, 2015 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash equivalents | $ 22,707 | $ 5,959 | $ 16,748 | $ — |
| Municipal bonds | 109,476 | — | 109,476 | — |
| Corporate debt securities | 66,553 | — | 66,553 | — |
| Commercial paper | 42,466 | — | 42,466 | — |
| Asset-backed securities | 26,103 | — | 26,103 | — |
| Securities of U.S. government-sponsored agencies | 5,028 | — | 5,028 | — |
| | | | | |
| **Liabilities** | | | | |
| Contingent consideration | 27,980 | — | — | 27,980 |

| *(In thousands)* | Balance at December 31, 2014 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash equivalents | $ 9,802 | $ 1,302 | $ 8,500 | $ — |
| Municipal bonds | 54,655 | — | 54,655 | — |
| Corporate debt securities | 92,629 | — | 92,629 | — |
| Commercial paper | 44,671 | — | 44,671 | — |
| Asset-backed securities | 21,283 | — | 21,283 | — |
| Securities of U.S. government-sponsored agencies | 8,548 | — | 8,548 | — |
| | | | | |
| **Liabilities** | | | | |
| Contingent consideration | 24,335 | — | — | 24,335 |

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

## NOTE 6. INVENTORIES

| *(In thousands)* | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Raw materials | **$ 10,649** | $ 8,847 |
| Work in process | **7,569** | 2,490 |
| Finished goods | **87,487** | 79,608 |
| Total inventories | **$ 105,705** | $ 90,945 |

## NOTE 7. ACCRUED EXPENSES

| *(In thousands)* | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Compensation and other employee-related costs | **$ 19,647** | $ 19,933 |
| Legal and other settlements and expenses | **26,172** | 27,686 |
| Accrued non-income taxes | **6,059** | 4,720 |
| Royalties | **6,378** | 3,872 |
| Other | **5,913** | 5,288 |
| Total accrued expenses | **$ 64,169** | $ 61,499 |

## NOTE 8. DEBT

### *Line of Credit*

In May 2011, we entered into a credit agreement with Wells Fargo Bank related to a revolving credit facility that provided for borrowings up to $50.0 million. At our request, and with the approval of the bank, the amount of borrowings available under the revolving credit facility can be increased to $75.0 million. The revolving credit facility includes up to a $25.0 million sub-limit for letters of credit. As amended to date, the revolving credit facility expires in May 2016. Cash advances bear interest at our option either at a fluctuating rate per annum equal to the daily LIBOR in effect for a one-month period plus 0.75%, or a fixed rate for a one- or three-month period equal to LIBOR plus 0.75%. The credit agreement governing the revolving credit facility also subjects us to various restrictive covenants, including the requirement to maintain maximum consolidated leverage. The covenants also include limitations on our ability to repurchase shares, to pay cash dividends or to enter into a sale transaction. As of September 30, 2015, we were in compliance with all covenants under the credit agreement, there were no outstanding borrowings under the revolving credit facility and available borrowings were $50.0 million. We may terminate the credit agreement at any time on ten days' notice without premium or penalty.

## NOTE 9. EQUITY

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

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

| *(Shares)* | Class A Common | Class B Common | Total |
|---|---|---|---|
| September 30, 2015 | 71,347,599 | 23,877,556 | 95,225,155 |
| December 31, 2014 | 70,828,187 | 23,877,556 | 94,705,743 |

The following table summarizes changes in total equity:

| *(In thousands)* | Nine Months Ended September 30, 2015 |
|---|---|
| Total equity, beginning of period | $ 585,454 |
| Net income | 75,183 |
| Stock-based compensation cost | 7,075 |
| Exercise of stock options | 4,313 |
| Excess tax benefit of nonqualified stock options | 1,973 |
| Other comprehensive loss | (81) |
| Total equity, end of period | $ 673,917 |

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

| *(In thousands)* | Unrealized gain/(loss) on marketable securities, net of tax | Foreign currency translation adjustments | Accumulated other comprehensive loss |
|---|---|---|---|
| Accumulated other comprehensive loss, net of tax, at December 31, 2014 | $ (64) | $ (1,593) | $ (1,657) |
| Other comprehensive income/(loss) before reclassifications | 100 | (184) | (84) |
| Amounts reclassified from accumulated other comprehensive income, net of tax | 3 | — | 3 |
| Other comprehensive income/(loss), net of tax | 103 | (184) | (81) |
| Accumulated other comprehensive income/(loss), net of tax, at September 30, 2015 | $ 39 | $ (1,777) | $ (1,738) |

| *(In thousands)* | Unrealized gain/(loss) on marketable securities, net of tax | Foreign currency translation adjustments | Accumulated other comprehensive loss |
|---|---|---|---|
| Accumulated other comprehensive income/(loss), net of tax, at December 31, 2013 | $ 32 | $ (1,041) | $ (1,009) |
| Other comprehensive loss before reclassifications | (15) | (290) | (305) |
| Amounts reclassified from accumulated other comprehensive income, net of tax | 7 | — | 7 |
| Other comprehensive loss, net of tax | (8) | (290) | (298) |
| Accumulated other comprehensive income/(loss), net of tax, at September 30, 2014 | $ 24 | $ (1,331) | $ (1,307) |

## NOTE 10. STOCK-BASED COMPENSATION

We have three stock plans: our Amended and Restated 2003 Stock Plan, our 2008 Stock Plan, and our 2012 Equity Incentive Plan (the "2012 Plan"). The 2012 Plan is the only remaining active stock plan. The purpose of these stock plans was, and the 2012 Plan is, to provide incentive to employees, directors, and consultants of Globus. The Plans are administered by the Board of Directors of Globus (the "Board") or its delegates. The number, type of option, exercise price, and vesting terms are determined by the Board or its delegates in accordance with the terms of the Plans. The options granted expire on a date specified by the Board, but generally not more than ten years from the grant date. Option grants to employees generally vest in varying installments over a four-year period.

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

As of September 30, 2015, there were 3,782,796 shares of Class A Common stock available for future grants under the 2012 Plan.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Weighted average grant date per share fair value | **$ 8.23** | $ 7.73 | **$ 8.73** | $ 9.88 |

Stock option activity during the nine months ended September 30, 2015 is summarized as follows:

| | Option Shares(thousands) | Weighted average exercise price | Weighted average remaining contractual life (years) | Aggregate intrinsic value (thousands) |
|---|---|---|---|---|
| Outstanding at December 31, 2014 | 4,854 | $ 14.50 | | |
| Granted | 2,514 | 24.82 | | |
| Exercised | (519) | 8.30 | | |
| Forfeited | (311) | 16.80 | | |
| Outstanding at September 30, 2015 | 6,538 | $ 18.85 | 7.7 | $ 26,096 |
| Exercisable at September 30, 2015 | 2,647 | $ 12.34 | 5.8 | $ 23,309 |
| Expected to vest at September 30, 2015 | 3,891 | $ 23.28 | 9.1 | $ 2,787 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *(In thousands)* | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Intrinsic value of stock options exercised | **$ 2,757** | $ 853 | **$ 8,696** | $ 16,750 |
| Stock-based compensation expense | **$ 2,266** | $ 1,661 | **$ 6,935** | $ 5,211 |
| Net stock-based compensation capitalized into inventory | **140** | — | **140** | — |
| Total stock-based compensation cost | **$ 2,406** | $ 1,661 | **$ 7,075** | $ 5,211 |

As of September 30, 2015, there was $28.7 million of unrecognized compensation expense related to unvested employee stock options that are expected to vest over a weighted average period of three years.

## NOTE 11. INCOME TAXES

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Effective income tax rate | **35.3%** | 33.7% | **35.5%** | 34.6% |

The change in the effective income tax rate between the current year and prior year periods is due primarily to the 2014 reduction in uncertain tax positions related to Internal Revenue Service (“IRS”) audits of our 2011 and 2012 tax years, resulting in no adjustments, offset partially by the research and experimentation credit not being extended as of and for the periods ended September 30, 2014.

## NOTE 12. COMMITMENTS AND CONTINGENCIES

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

*N-Spine, Synthes and DePuy Synthes Litigation*

In April 2010, N-Spine, Inc. and Synthes USA Sales, LLC filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. N-Spine, the patent owner, and Synthes USA, a licensee of the subject patent, allege that we infringe one or more claims of the patent by making, using, offering for sale or selling our TRANSITION® stabilization system product. N-Spine and Synthes USA seek injunctive relief and an unspecified amount in damages. We intend to defend our rights vigorously. This matter was stayed on July 14, 2011 pending the resolution of an *inter partes* reexamination on the asserted patent granted by the U.S. Patent and Trademark Office ("USPTO") in February 2011. In December 2011, the examiner withdrew the original grounds of rejection of the asserted patent and we have appealed the examiner's decision. In January 2014, the USPTO ruled on the appeal finding certain claims rejected in view of the prior art and affirming certain other claims. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

In a related matter, on January 8, 2014, Depuy Synthes Products, LLC ("Depuy Synthes") filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. Depuy Synthes alleges that we infringe one or more claims of the asserted patent by making, using, offering for sale or selling our TRANSITION® stabilization system product. Depuy Synthes seeks injunctive relief and an unspecified amount in damages. We intend to defend our rights vigorously. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

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

In July 2011, Synthes USA, LLC, Synthes USA Products, LLC and Synthes USA Sales, LLC filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. Synthes USA LLC, the patent owner, Synthes USA Products, LLC, a licensee to manufacture products of the subject patents, and Synthes USA Sales LLC, a licensee to sell products of the subject patents, allege that we infringed one or more claims of three patents by making, using, offering for sale or selling our COALITION®, INDEPENDENCE® and INTERCONTINENTAL® products. As a result of the acquisition of Synthes, Inc. by Johnson & Johnson, a motion was filed to change the plaintiff in this matter to DePuy Synthes in February

2013. On June 14, 2013, the jury in this case returned a verdict, finding that prior versions of the three products we previously sold did infringe on DePuy Synthes' patents and awarding monetary damages in the amount of $16.0 million. The jury also upheld the validity of DePuy Synthes' patents. There was no finding of willful infringement by Globus.

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

We believe the facts and the law do not support the jury's findings of infringement and patent validity and are seeking to overturn the verdict through the appeals process.

For the year ended December 31, 2013, we recorded $19.5 million in damages and other litigation-related costs related to this case, of which $1.3 million was included in provision for litigation - cost of goods sold (due to a write off of certain inventory which will not be sold due to the verdict) and $18.2 million was included in provision for litigation (operating expense). During the year ended December 31, 2014, we accrued an additional $0.6 million in interest included in provision for litigation related to this litigation.

*L5 Litigation*

In December 2009, we filed suit in the Court of Common Pleas of Montgomery County, Pennsylvania against our former exclusive independent distributor L5 Surgical, LLC and its principals, seeking an injunction and declaratory judgment concerning certain restrictive covenants made to L5 by its sales representatives. L5 brought counterclaims against us alleging tortious interference, unfair competition and conspiracy. The injunction phase was resolved in September 2010, and this matter is now in the discovery phase of litigation on the underlying damages claims. We intend to defend our rights vigorously. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

*NuVasive Litigation*

In October 2010, NuVasive, Inc. filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. NuVasive, the patent owner, alleges that we infringe one or more claims of three patents by making, using, offering for sale or selling our MARS 3V™ retractor for use in certain lateral fusion procedures. NuVasive sought injunctive relief and an unspecified amount in damages. This matter was settled on February 12, 2015 for an undisclosed amount that was not material.

*NuVasive Employee Litigation*

We have hired several employees who were formerly employed by NuVasive, Inc. In July 2011, NuVasive filed suit against us in the District Court of Travis County, Texas alleging that our hiring of one named former employee and other unnamed former employees constitutes tortious interference with its contracts with those employees, and with prospective business relationships, as well as aiding and abetting the breach of fiduciary duty. NuVasive sought compensatory damages, permanent injunction, punitive damages and attorneys' fees. This matter was settled on February 12, 2015 for an undisclosed amount that was not material.

*Bianco Litigation*

On March 21, 2012, Sabatino Bianco filed suit against us in the Federal District Court for the Eastern District of Texas claiming that we misappropriated his trade secret and confidential information and improperly utilized it in developing our CALIBER® product. Bianco alleges that we engaged in misappropriation of trade secrets, breach of contract, unfair competition, fraud and theft and seeks correction of inventorship, injunctive relief and exemplary damages. On April 20, 2012, Bianco filed a motion for a preliminary injunction, seeking to enjoin us from making, using, selling, importing or offering for sale our CALIBER® product. On November 15, 2012, the court denied Bianco's motion for preliminary injunction. On October 1, 2013, Bianco amended his complaint to claim that his trade secrets and confidential information were also used improperly in developing our RISE® and CALIBER-L® products.

On January 17, 2014, the jury in this case returned a verdict in favor of Bianco on a claim of misappropriation of trade secret. We accrued the verdict amount of $4.3 million as of December 31, 2013. The jury found against Bianco on the claims of breach of contract and disgorgement of profits. The court granted our motion for judgment as a matter of law and dismissed Bianco's claims for unfair competition, fraud, and exemplary damages, and Bianco abandoned the claim of misappropriation of confidential information. Bianco's claims of correction of inventorship, unjust enrichment, and permanent injunctive relief were not submitted to the jury. On March 7, 2014, the court denied Bianco's claim for correction of inventorship and ruled he is not entitled to be named as a co-inventor on any of the patents at issue, and also denied his claim for unjust enrichment. On March 17, 2014, the court denied Bianco's claim for permanent injunctive relief. On July 2, 2014, the court awarded Bianco an ongoing royalty of 5% of the net sales of the CALIBER®, CALIBER®-L, and RISE® products, or products that are not colorably different from those products, for a fifteen year period on sales starting on January 18, 2014. The court entered final judgment on the jury verdict on July 17, 2014. On October 19, 2015, the United States Federal Circuit Court of Appeals affirmed the judgment without opinion. We are considering our options for further appeal.

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

*Altus Partners, LLC Litigation*

On February 20, 2013, Altus Partners, LLC filed suit against us in the U.S. District Court for the Eastern District of Pennsylvania for patent infringement. On April 7, 2014, we settled the litigation with Altus Partners and recognized a provision for litigation of $2.0 million.

*Bonutti Skeletal Innovations, LLC Litigation*

On November 19, 2014, Bonutti Skeletal Innovations, LLC filed suit against us in the U.S. District Court for the Eastern District of Pennsylvania for patent infringement. Bonutti Skeletal, a non-practicing entity, alleges that Globus willfully infringes one or more claims of six patents by making, using, offering for sale or selling the CALIBER®, CALIBER®-L, COALITION®, CONTINENTAL®, FORGE®, FORTIFY®, INDEPENDENCE®, INTERCONTINENTAL®, MONUMENT®, NIKO®, RISE®, SIGNATURE®, SUSTAIN®, and TRANSCONTINENTAL® products. Bonutti Skeletal seeks an unspecified amount in damages and injunctive relief. This matter was stayed on June 26, 2015 pending the resolution of *inter partes* reviews on the asserted patents by the USPTO. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

*Flexuspine, Inc. Litigation*

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

*Silverstein Litigation*

On September 28, 2015, a putative securities class action lawsuit was filed against us and certain of our officers in the U.S. District Court for the Eastern District of Pennsylvania. Plaintiff in the lawsuit purports to represent a class of our stockholders who purchased shares between February 26, 2014 and August 5, 2014. The complaint purports to assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and seeks damages in an unspecified amount, attorney's fees and other relief. We believe the allegations to be unfounded, and intend to defend our rights vigorously. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

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

## NOTE 13. RELATED-PARTY TRANSACTIONS

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

| *(In thousands)* | Period Ended March 11, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 |
|---|---|---|---|
| Purchases from related-party supplier | $ 5,304 | $ 5,163 | $ 15,954 |

On March 11, 2015, BMG was acquired by Globus, and therefore as of March 31, 2015, there were no further purchases from nor amounts payable to BMG. As of December 31, 2014, we had $5.4 million of accounts payable due to BMG. The amount payable to BMG on the date of acquisition of $5.2 million was settled in connection with the acquisition.

## NOTE 14. SEGMENT AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise for which separate discrete financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. We globally manage the business within one reportable segment. Segment information is consistent with how management reviews the business, makes investing and resource allocation decisions and assesses operating performance. Products are sold principally in the United States.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *(In thousands)* | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| United States | **$ 125,670** | $ 106,601 | **$ 367,140** | $ 309,937 |
| International | **11,322** | 11,186 | **35,026** | 35,633 |
| Total sales | **$ 136,992** | $ 117,787 | **$ 402,166** | $ 345,570 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *(In thousands)* | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Innovative Fusion | **$ 72,490** | $ 67,726 | **$ 214,431** | $ 200,356 |
| Disruptive Technology | **64,502** | 50,061 | **187,735** | 145,214 |
| Total sales | **$ 136,992** | $ 117,787 | **$ 402,166** | $ 345,570 |

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

*The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited interim consolidated financial statements and related notes included elsewhere in this report.*

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

### Overview

We are a medical device company focused on the design, development and commercialization of musculoskeletal implants. We are currently focused on implants that promote healing in patients with spine disorders. We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures that assist surgeons in effectively treating their patients, respond to evolving surgeon needs and address new treatment options. Since our inception in 2003, we have launched over 150 products and offer a comprehensive product portfolio of innovative and differentiated products addressing a broad array of spinal pathologies, anatomies and surgical approaches.

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

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

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

During the nine months ended September 30, 2015, our international sales accounted for approximately 8.7% of our total sales. We sell our products in 34 countries outside the United States through a combination of direct sales representatives employed by us and international distributors. We believe there are significant opportunities for us to increase our presence in both existing and new international markets through the continued expansion of our direct and distributor sales forces and the commercialization of additional products.

On March 11, 2015, we acquired Branch Medical Group, Inc. ("BMG"), a related-party manufacturer of high precision medical devices located in Audubon, PA, for $57.0 million in cash, $5.3 million in deferred consideration, and $0.9 million of closing working capital adjustments.

## Results of Operations

*Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014*

*Sales*

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

| | Three Months Ended | | Change | |
|---|---|---|---|---|
| *(In thousands, except percentages)* | September 30, 2015 | September 30, 2014 | $ | % |
| Innovative Fusion | **$ 72,490** | $ 67,726 | $ 4,764 | 7.0% |
| Disruptive Technology | **64,502** | 50,061 | 14,441 | 28.8% |
| Total sales | **$ 136,992** | $ 117,787 | $ 19,205 | 16.3% |

Product launches continue to be a driving force in our sales growth, particularly from products launched during the last three years. The growth in Disruptive Technology of $14.4 million was due primarily to sales of regenerative biologics, expandable interbody products, and minimally invasive products launched during the past three years in addition to the sales from Transplant Technologies of Texas, Ltd. ("TTOT") since the acquisition in late 2014. Innovative Fusion sales increased by $4.8 million due primarily to strong sales of pedicle screw systems.

| | Three Months Ended | | Change | |
|---|---|---|---|---|
| *(In thousands, except percentages)* | September 30, 2015 | September 30, 2014 | $ | % |
| United States | **$ 125,670** | $ 106,601 | $ 19,069 | 17.9% |
| International | **11,322** | 11,186 | 136 | 1.2% |
| Total sales | **$ 136,992** | $ 117,787 | $ 19,205 | 16.3% |

In the United States, the increase in sales of $19.1 million was due primarily to expansion into new territories and increased penetration in existing territories. We saw strong sales in both Disruptive Technology and Innovative Fusion products, led by sales of expandable interbody products, regenerative biologics and pedicle screw systems.

Internationally, the increase in sales of $0.1 million was negatively impacted due to changes in foreign currency exchange rates. On a constant currency basis, our international sales grew $1.6 million, or by 14.6%, due to increased penetration in existing international territories and strong sales in our regenerative biologics and expandable interbody products. Our worldwide sales increased 17.6% on a constant currency basis.

*Cost of Goods Sold*

| | Three Months Ended | | Change | |
|---|---|---|---|---|
| *(In thousands, except percentages)* | September 30, 2015 | September 30, 2014 | $ | % |
| Cost of goods sold | **$ 33,052** | $ 27,686 | $ 5,366 | 19.4% |
| Percentage of sales | **24.1%** | 23.5% | | |

The increase in cost of goods sold was due primarily to an increase of $4.1 million from increased sales volume and mix, including costs for TTOT, and an increase of $1.2 million in freight, depreciation and

other costs.

*Research and Development Expenses*

| *(In thousands, except percentages)* | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Research and development | **$ 9,409** | $ 8,146 | $ 1,263 | 15.5% |
| Percentage of sales | **6.9%** | 6.9% | | |

The increase in research and development expenses was due primarily to an increase of $1.1 million related to employee compensation from additional headcount for furthering research activities and developing new innovative products.

*Selling, General and Administrative Expenses*

| *(In thousands, except percentages)* | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Selling, general and administrative | **$ 53,829** | $ 46,986 | $ 6,843 | 14.6% |
| Percentage of sales | **39.3%** | 39.9% | | |

The increase in selling, general and administrative expenses resulted primarily from an increase of $4.6 million related to increased compensation costs in the United States, including TTOT and BMG, to support increased sales volume and company growth, an increase of $1.4 million in acquisition-related expenses, $0.8 million in other selling, general and administrative costs.

*Provision for Litigation*

| *(In thousands, except percentages)* | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Provision for litigation | **$ 27** | $ 46 | $ (19) | (41.3)% |
| Percentage of sales | **—%** | —% | | |

The provision for litigation, which includes settlement and verdict costs, was nominal in the current and prior quarters.

*Other Income/(Expense), Net*

| *(In thousands, except percentages)* | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Other income/(expense), net | **$ 253** | $ (124) | $ 377 | (304.0)% |
| Percentage of sales | **0.2%** | (0.1)% | | |

The change in other income/(expense), net is due primarily to increases in interest income, along with decreases in foreign exchange transaction losses.

*Income Tax Provision*

| *(In thousands, except percentages)* | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Income tax provision | **$ 14,447** | $ 11,738 | $ 2,709 | 23.1% |
| Effective income tax rate | **35.3%** | 33.7% | | |

Our tax provision and effective tax rate for the three months ended September 30, 2015 was higher than the prior year period due primarily to the 2014 reduction in uncertain tax positions related to Internal Revenue Service ("IRS") audits of our 2011 and 2012 tax years, resulting in no adjustments, offset partially by the research and experimentation credit not being extended as of September 30, 2014, for the three months ended September 30, 2014.

*Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014*

*Sales*

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

| *(In thousands, except percentages)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Innovative Fusion | **$ 214,431** | $ 200,356 | $ 14,075 | 7.0% |
| Disruptive Technology | **187,735** | 145,214 | 42,521 | 29.3% |
| Total sales | **$ 402,166** | $ 345,570 | $ 56,596 | 16.4% |

Product launches continue to be a driving force in our sales growth, particularly from products launched during the last three years. The growth in Disruptive Technology of $42.5 million was due primarily to sales of regenerative biologics, expandable interbody and minimally invasive products launched during the past three years including the sales from TTOT since the acquisition in late 2014. Innovative Fusion sales increased by $14.1 million due primarily to strong sales of pedicle screw systems.

| *(In thousands, except percentages)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| United States | **$ 367,140** | $ 309,937 | $ 57,203 | 18.5 % |
| International | **35,026** | 35,633 | (607) | (1.7%) |
| Total sales | **$ 402,166** | $ 345,570 | $ 56,596 | 16.4 % |

In the United States, the increase in sales of $57.2 million was due primarily to expansion into new territories and increased penetration in existing territories. We saw strong sales in both Disruptive Technology and Innovative Fusion products, led by sales of expandable interbody products, regenerative biologics and pedicle screw systems.

Internationally, the decrease in sales of $0.6 million was negatively impacted due to changes in foreign currency exchange rates. On a constant currency basis, our international sales grew $3.9 million, or by 11.0%, due to increased penetration in existing international territories and strong sales in our regenerative biologics and expandable interbody products. Our worldwide sales increased 17.7% on a constant currency basis.

*Cost of Goods Sold*

| *(In thousands, except percentages)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Cost of goods sold | **$ 97,738** | $ 79,581 | $ 18,157 | 22.8% |
| Percentage of sales | **24.3%** | 23.0% | | |

The increase in cost of goods sold was due primarily to an increase of $13.3 million from increased sales volume and mix, including costs for TTOT, an increase of $1.6 million in freight costs, an increase of $1.0 million for inventory reserves and write-offs and an increase of $0.8 million for royalties.

*Research and Development Expenses*

| *(In thousands, except percentages)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Research and development | **$ 27,146** | $ 23,283 | $ 3,863 | 16.6% |
| Percentage of sales | **6.7%** | 6.7% | | |

The increase in research and development expenses was due primarily to an increase of $2.5 million related to employee compensation from additional headcount for furthering research activities and developing new innovative products.

*Selling, General and Administrative Expenses*

| *(In thousands, except percentages)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Selling, general and administrative | **$ 160,624** | $ 140,089 | $ 20,535 | 14.7% |
| Percentage of sales | **39.9%** | 40.5% | | |

The increase in selling, general and administrative expenses was due primarily to an increase of $13.4 million related to increased compensation costs in the United States, including TTOT & BMG, to support increased sales volume and company growth, an increase of $2.9 million in acquisition-related expenses, an increase of $1.2 million in legal expenses, an increase of $0.9 million in bad debt expense and an increase of $2.2 million in other selling, general and administrative costs.

*Provision for Litigation*

| *(In thousands, except percentages)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Provision for litigation | **$ 433** | $ 3,899 | $ (3,466) | (88.9)% |
| Percentage of sales | **0.1%** | 1.1% | | |

The provision for litigation, which includes settlement and verdict costs, was nominal in the current year period. In the prior year period, we recognized provisions for the Bianco verdict, Altus settlement, and other litigation matters.

*Other Income, Net*

| *(In thousands, except percentages)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Other income, net | **$ 347** | $ 446 | $ (99) | (22.2)% |
| Percentage of sales | **0.1%** | 0.1% | | |

The decrease in other income, net is due primarily to increases in foreign exchange transaction losses, which were partially offset by increases in interest income.

*Income Tax Provision*

| *(In thousands, except percentages)* | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Change $ | Change % |
|---|---|---|---|---|
| Income tax provision | **$ 41,389** | $ 34,317 | $ 7,072 | 20.6% |
| Effective income tax rate | **35.5%** | 34.6% | | |

Our tax provision and effective tax rate for the nine months ended September 30, 2015 was higher than the prior year period due primarily to the 2014 reduction in uncertain tax positions related to Internal Revenue Service ("IRS") audits of our 2011 and 2012 tax years, resulting in no adjustments, offset partially by the research and experimentation credit not being extended as of September 30, 2014, for the three months ended September 30, 2014.

**Non-GAAP Financial Measures**

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

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

| *(In thousands, except percentages)* | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Net Income | **$ 26,481** | $ 23,061 | **$ 75,183** | $ 64,847 |
| Interest income, net | **(342)** | (181) | **(898)** | (577) |
| Provision for income taxes | **14,447** | 11,738 | **41,389** | 34,317 |
| Depreciation and amortization | **6,090** | 5,373 | **17,669** | 16,057 |
| EBITDA | **46,676** | 39,991 | **133,343** | 114,644 |
| Stock-based compensation expense | **2,266** | 1,661 | **6,935** | 5,211 |
| Provision for litigation | **27** | 46 | **433** | 3,899 |
| Change in fair value of contingent consideration and other acquisition related costs | **1,550** | 263 | **2,864** | 416 |
| Adjusted EBITDA | **$ 50,519** | $ 41,961 | **$ 143,575** | $ 124,170 |
| Adjusted EBITDA as a percentage of sales | **36.9%** | 35.6% | **35.7%** | 35.9% |

In addition, for the period ended September 30, 2015 and for other comparative periods, we are presenting a non-GAAP measure of Diluted Earnings Per Share, which represents diluted earnings per share before provision for litigation, which is net of the tax effects of such provision. We believe this non-GAAP measure is also a useful indicator of our operating performance, and particularly as an additional measure of comparative operating performance from period to period as it removes the effects of litigation, which we believe is not reflective of underlying business trends.

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

| *(Per share amounts)* | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Diluted earnings per share, as reported | **$ 0.28** | $ 0.24 | **$ 0.78** | $ 0.68 |
| Provision for litigation (net of taxes) | **—** | — | **0.01** | 0.03 |
| Non-GAAP diluted earnings per share | **$ 0.28** | $ 0.24 | **$ 0.79** | $ 0.71 |

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

| *(In thousands)* | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Net cash provided by operating activities | **$ 30,046** | $ 35,645 | **$ 77,877** | $ 77,227 |
| Adjustment for impact of restricted cash | **703** | — | **2,015** | — |
| Purchases of property and equipment | **(11,480)** | (3,428) | **(36,606)** | (15,659) |
| Free cash flow | **$ 19,269** | $ 32,217 | **$ 43,286** | $ 61,568 |

Furthermore, we define the non-GAAP measure of sales and net income on a constant currency basis as the current and prior period sales and net income translated at the same predetermined exchange rate. We

believe sales and net income on a constant currency basis provides insight to the comparative increase or decrease in period sales and net income, in dollar and percentage terms, excluding the effects of fluctuations in foreign currency exchange rates. Below is a table of sales and net income on a constant currency basis compared to sales and net income as reported in accordance with U.S. GAAP for the periods presented.

| | Three Months Ended | | Percent Change | |
|---|---|---|---|---|
| *(In thousands, except percentages)* | September 30, 2015 | September 30, 2014 | Reported | Constant Currency |
| United States | **$ 125,670** | $ 106,601 | 17.9% | 17.9% |
| International | **11,322** | 11,186 | 1.2% | 14.6% |
| Total sales | **$ 136,992** | $ 117,787 | 16.3% | 17.6% |
| | | | | |
| Net income | **$ 26,481** | $ 23,061 | 14.8% | 18.0% |

| | Nine Months Ended | | Percent Change | |
|---|---|---|---|---|
| *(In thousands, except percentages)* | September 30, 2015 | September 30, 2014 | Reported | Constant Currency |
| United States | **$ 367,140** | $ 309,937 | 18.5 % | 18.5% |
| International | **35,026** | 35,633 | (1.7)% | 11.0% |
| Total sales | **$ 402,166** | $ 345,570 | 16.4 % | 17.7% |
| | | | | |
| Net income | **$ 75,183** | $ 64,847 | 15.9 % | 18.4% |

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

## Cash Flows

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

| | Nine Months Ended | | Change |
|---|---|---|---|
| *(In thousands)* | September 30, 2015 | September 30, 2014 | $ |
| Net cash provided by operating activities | **$ 77,877** | $ 77,227 | $ 650 |
| Net cash used in investing activities | **(115,144)** | (8,573) | (106,571) |
| Net cash provided by financing activities | **5,386** | 10,788 | (5,402) |
| Effect of foreign exchange rate changes on cash | **117** | 45 | 72 |
| Increase/(decrease) in cash and cash equivalents | **$ (31,764)** | $ 79,487 | $ (111,251) |

During the nine months ended September 30, 2015, our cash and cash equivalents decreased due primarily to the acquisition of BMG for $48.5 million, net of cash acquired, $37.1 million of additional investment in marketable securities and $20.9 million in additional acquisitions of property and equipment to support our continued investment in regenerative biologics, robotics and in-house manufacturing.

*Cash Provided by Operating Activities*

The increase in net cash provided by operating activities of $0.7 million was due primarily to the $10.3 million increase in net income and $2.2 million decrease in accrued expenses, partially offset by the $7.2 million net decrease in the change in accounts payable and accounts payable to related parties.

*Cash Used in Investing Activities*

The increase in net cash used in investing activities of $106.6 million was due primarily to the $48.5 million used for the BMG acquisition, the $37.1 million increase in the amount of cash invested in marketable securities and $20.9 million in additional acquisitions of property and equipment to support our continued investment in regenerative biologics, robotics and in-house manufacturing during the nine-month period ended September 30, 2015 compared to the prior period.

*Cash Provided by Financing Activities*

The decrease in cash provided by financing activities of $5.4 million was due primarily to the decrease in the proceeds from the exercise of stock options of $3.3 million, along with the decrease in the related excess tax benefit of $2.1 million.

**Liquidity and Capital Resources**

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

| *(In thousands)* | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Cash and cash equivalents | **$ 50,501** | $ 82,265 |
| Short-term marketable securities | **188,101** | 146,439 |
| Long-term marketable securities | **61,525** | 75,347 |
| Total cash, cash equivalents and marketable securities | **$ 300,127** | $ 304,051 |
| | | |
| Available borrowing capacity under revolving credit facility | **50,000** | 50,000 |
| Working capital | **$ 411,889** | $ 380,613 |

In May 2011, we entered into a credit agreement with Wells Fargo Bank related to a revolving credit facility that provided for borrowings up to $50.0 million. At our request, and with the approval of the bank, the amount of borrowings available under the revolving credit facility can be increased to $75.0 million. The revolving credit facility includes up to a $25.0 million sub-limit for letters of credit. As amended to date, the revolving credit facility expires in May 2016. Cash advances bear interest at our option either at a fluctuating rate per annum equal to the daily LIBOR in effect for a one-month period plus 0.75%, or a fixed rate for a one- or three-month period equal to LIBOR plus 0.75%. The credit agreement governing the revolving credit facility also subjects us to various restrictive covenants, including the requirement to maintain maximum consolidated leverage. The covenants also include limitations on our ability to repurchase shares, to pay cash dividends or to enter into a sale transaction. As of September 30, 2015, we were in compliance with all covenants under the credit agreement, there were no outstanding borrowings under the revolving credit facility and available borrowings were $50.0 million. We may terminate the credit agreement at any time on ten days' notice without premium or penalty.

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

In addition to our existing cash and marketable securities balances, our principal sources of liquidity are our cash flows from operating activities and our revolving credit facility, which was fully available as of

September 30, 2015. We believe these sources will provide sufficient liquidity for us to meet our liquidity requirements for the foreseeable future. Our principal liquidity requirements are to meet our working capital, research and development, including clinical trials, capital expenditure needs, principally for our surgical sets required to maintain and expand our business, and potential future business or intellectual property acquisitions. We expect to continue to make investments in surgical sets as we launch new products, increase the size of our U.S. sales force, and expand into international markets. We may, however, require additional liquidity as we continue to execute our business strategy. Our liquidity may be negatively impacted as a result of a decline in sales of our products, including declines due to changes in our customers' ability to obtain third-party coverage and reimbursement for procedures that use our products; increased pricing pressures resulting from intensifying competition, cost increases and slower product development cycles resulting from a changing regulatory environment; and unfavorable results from litigation which will affect our cash flow. We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of indebtedness, additional equity financings or a combination of these potential sources of liquidity. The sale of additional equity may result in dilution to our stockholders. There is no assurance that we will be able to secure such additional funding on terms acceptable to us, or at all.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Seasonality and Backlog**

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

**Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board released Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions. Under the new standard, an entity will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services. The standard also will require enhanced disclosures and provide more comprehensive guidance for transactions such as service revenue and contract modifications. The standard was to take effect for public companies for annual reporting periods beginning after December 15, 2016, and early adoption was prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption.

In August 2015, the FASB released ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* ("ASU 2015-14"), which defers the effective date of ASU 2014-09 by one year while providing the option to early adopt the standard on the original effective date. We are currently evaluating the timing and impact of the new standard on our financial position, results of operations, and disclosures.

In July 2015, the FASB released ASU 2015-11, *Simplifying the Measurement of Inventory (Topic 330)* ("ASU 2015-11") as part of the FASB's Simplification Initiative. This update is intended to more closely align the measurement of inventory under GAAP with the measurement of inventory under International Financial Reporting Standards. Within the scope of the update, an entity is required to measure inventory

at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonable and predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for all public entities for fiscal years beginning after December 31, 2016, including interim reporting periods within that period, and is required to be applied prospectively, with early adoption permitted. We are currently evaluating the impact of the new standard on our financial position, results of operations, and disclosures.

In September 2015, the FASB released ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16"). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to the issuance of the standard, entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendments in ASU 2015-16 require an entity to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The update is not expected to have a material impact on our financial position, results of operations, and disclosures.

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

Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements contained in this Quarterly Report speak only as of the date of this Quarterly Report. We undertake no obligation to update any forward-looking statements as a result

of new information, events or circumstances or other factors arising or coming to our attention after the date hereof.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

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

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation of our disclosure controls and procedures as of September 30, 2015, our CEO and CFO concluded that, as of such date, our disclosure controls and procedures were effective.

### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the three months ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and 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 Consolidated Financial Statements; Note 12. Commitments and Contingencies"** above.

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

### Item 1A. Risk Factors

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

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

Not applicable.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

Not applicable.

**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 | Employment Agreement, dated as of September 14, 2015, by and between Globus Medical, Inc. and David M. Demski (incorporated by reference to Exhibit 10.1 of Globus Medical, Inc's Current Report on Form 8-K filed on September 17, 2015). |
| 31.1* | Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32** | Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| | |
| * | Filed herewith. |
| ** | Furnished herewith. |

## 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 4, 2015

**/s/ DAVID C. PAUL**

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

Dated: November 4, 2015

**/s/ DANIEL T. SCAVILLA**

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

## EXHIBIT INDEX

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**EXHIBIT 31.1**

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

I, David C. Paul, 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 4, 2015

**/s/ DAVID C. PAUL**
David C. Paul
Chairman
Chief Executive Officer

**EXHIBIT 31.2**

## Certification By Principal Financial 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 4, 2015

**/s/ DANIEL T. SCAVILLA**
Daniel T. Scavilla
Senior Vice President
Chief Financial Officer

**EXHIBIT 32**

**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), David C. Paul, Chairman and Chief Executive Officer, and Daniel T. Scavilla, 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, 2015 (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.

Dated: November 4, 2015

**/s/ DAVID C. PAUL**
David C. Paul
Chairman
Chief Executive Officer

Dated: November 4, 2015

**/s/ DANIEL T. SCAVILLA**
Daniel T. Scavilla
Senior Vice President
Chief Financial Officer

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.