GLOBUS MEDICAL INC
Form 10-Q
October 31, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 001-35621

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):
Yes x No ¨

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

Large Accelerated Filer x	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 x

The number of shares outstanding of the issuer's common stock (par value $0.001 per share) as of October 27, 2014 was 94,476,797 shares.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$169,449	$89,962
Short-term marketable securities	129,302	148,962
Accounts receivable, net of allowances of $1,733 and $1,581, respectively	62,598	62,414
Inventories	77,430	70,350
Prepaid expenses and other current assets	6,183	5,080
Income taxes receivable	2,101	2,723
Deferred income taxes	37,750	37,317
Total current assets	484,813	416,808
Property and equipment, net of accumulated depreciation of $113,868 and $99,910, respectively	66,062	64,150
Long-term marketable securities	47,028	36,528
Intangible assets, net	29,139	29,537
Goodwill	18,372	18,372
Other assets	1,025	909
Total assets	$646,439	$566,304
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$9,703	$10,073
Accounts payable to related-party	3,945	2,656
Accrued expenses	55,606	51,125
Income taxes payable	2,062	2,358
Business acquisition liabilities, current	1,443	1,730
Total current liabilities	72,759	67,942
Business acquisition liabilities, net of current portion	15,348	15,528
Deferred income taxes	1,734	6,385
Other liabilities	2,790	4,089
Total liabilities	92,631	93,944
Commitments and contingencies (Note 12)		
Equity:		
Common stock; $0.001 par value. Authorized 785,000 shares; issued and outstanding 94,464 and 93,443 shares at September 30, 2014 and December 31, 2013, respectively	94	93
Additional paid-in capital	170,885	153,987
Accumulated other comprehensive loss	(1,307)	(1,009)
Retained earnings	384,136	319,289
Total equity	553,808	472,360
Total liabilities and equity	$646,439	$566,304

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Sales	$117,787	$107,187	$345,570	$319,214
Cost of goods sold	27,686	25,315	79,581	72,309
Provision for litigation - cost of goods sold	—	—	—	1,260
Gross profit	90,101	81,872	265,989	245,645
Operating expenses:				
Research and development	8,146	6,568	23,283	20,452
Selling, general and administrative	46,986	45,702	140,089	136,849
Provision for litigation	46	99	3,899	18,418
Total operating expenses	55,178	52,369	167,271	175,719
Operating income	34,923	29,503	98,718	69,926
Other income/(expense), net	(124)	197	446	255
Income before income taxes	34,799	29,700	99,164	70,181
Income tax provision	11,738	9,390	34,317	22,554
Net income	$23,061	$20,310	$64,847	$47,627
Earnings per share:				
Basic	$0.24	$0.22	$0.69	$0.52
Diluted	$0.24	$0.22	$0.68	$0.51
Weighted average shares outstanding:				
Basic	94,399	93,028	94,111	92,418
Dilutive stock options	1,076	1,394	1,267	1,626
Diluted	95,475	94,422	95,378	94,044
Anti-dilutive stock equivalents excluded from weighted average calculation	1,660	1,622	1,518	2,084

See accompanying notes to consolidated financial statements.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net income	$23,061	$20,310	$64,847	$47,627
Other comprehensive income/(loss):				
Unrealized gain/(loss) on marketable securities, net of tax	(18)	72	(8)	13
Foreign currency translation gain/(loss)	(422)	175	(290)	(371)
Total other comprehensive income/(loss)	(440)	247	(298)	(358)
Comprehensive income	$22,621	$20,557	$64,549	$47,269

See accompanying notes to consolidated financial statements.

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

(In thousands)	Nine Months Ended September 30, 2014	September 30, 2013
Cash flows from operating activities:		
Net income	$64,847	$47,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,057	14,211
Amortization of premium on marketable securities	2,073	1,476
Provision for excess and obsolete inventories	5,439	6,405
Stock-based compensation	5,211	3,865
Allowance for doubtful accounts	236	234
Change in deferred income taxes	(5,115)	(11,138)
(Increase)/decrease in:		
Accounts receivable	(886)	(2,143)
Inventories	(12,535)	(15,715)
Prepaid expenses and other assets	(1,325)	(3,587)
Increase/(decrease) in:		
Accounts payable	(2,253)	1,022
Accounts payable to related-party	1,289	730
Accrued expenses and other liabilities	3,855	19,639
Income taxes payable/receivable	334	(1,813)
Net cash provided by operating activities	77,227	60,813
Cash flows from investing activities:		
Purchases of marketable securities	(161,149)	(186,748)
Maturities of marketable securities	144,207	19,000
Sales of marketable securities	24,028	4,979
Purchases of property and equipment	(15,659)	(18,475)
Net cash used in investing activities	(8,573)	(181,244)
Cash flows from financing activities:		
Payment of business acquisition liabilities	(900)	(1,000)
Proceeds from issuance of common stock	7,644	6,221
Excess tax benefit related to nonqualified stock options	4,044	4,519
Net cash provided by financing activities	10,788	9,740
Effect of foreign exchange rate on cash	45	198
Net increase/(decrease) in cash and cash equivalents	79,487	(110,493)
Cash and cash equivalents, beginning of period	89,962	212,400
Cash and cash equivalents, end of period	$169,449	$101,907
Supplemental disclosures of cash flow information:		
Interest paid	32	42
Income taxes paid	$36,362	$30,956

See accompanying notes to consolidated financial statements.

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

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company

Globus Medical, Inc., together with its subsidiaries, is a medical device company focused exclusively on the design, development and commercialization of musculoskeletal implants. We are currently focused on implants that promote healing in patients with spine disorders. Since our inception in 2003, we have launched over 130 products and offer a product portfolio addressing a broad array of spinal pathologies.

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

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

(b) Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in conformity with 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, 2013.

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. Our consolidation policy requires the consolidation of entities where a controlling financial interest is held. All intercompany balances and transactions are eliminated in consolidation.

(d) Use of Estimates

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

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

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

(e) Marketable Securities

Our marketable securities include municipal bonds, corporate debt securities, commercial paper, securities of U.S. government-sponsored agencies and asset-backed securities, and are classified as available-for-sale as of September 30, 2014. Available-for-sale securities are recorded at fair value in both short-term and long-term marketable securities on our consolidated balance sheets. The change in fair value for available-for-sale securities is recorded, net of taxes, as a component of accumulated other comprehensive income on our consolidated balance sheets. Premiums and discounts are recognized over the life of the related security as an adjustment to yield using the straight-line method. Realized gains or losses from the sale of our marketable securities are determined on a specific identification basis. Realized gains and losses, along with interest income and the amortization/accretion of premiums/discounts are included as a component of other income, net, on our consolidated statements of income. Interest receivable is recorded as a component of prepaid expenses and other current assets on our consolidated balance sheets.

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

(f) Inventories

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

(g) Revenue Recognition

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

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

(h) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") released a standard on the recognition of revenue from contracts with customers that 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 will take effect for public companies for annual reporting periods beginning after December 15, 2016, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the impact of the new standard on our financial position, results of operations and disclosures.

NOTE 2. ACQUISITIONS

On December 23, 2013, we entered into an asset purchase agreement with a small robotics development company, pursuant to which we acquired substantially all of its assets for $16.8 million. In addition to the initial purchase price, we may be obligated to make a milestone payment and revenue sharing payments based upon a percentage of net sales of certain products based on the intellectual property we acquired in the transaction. The acquired company was privately held and is focused on developing a next generation surgical robotic positioning platform for spine, brain and other therapeutic markets. The technology is intended to enable surgeons to perform minimally invasive and percutaneous surgical procedures with greater accuracy, safety and reproducibility than is currently available. We accounted for this purchase as a business combination, and as a result, recorded goodwill of $3.0 million.

NOTE 3. INTANGIBLE ASSETS

A summary of intangible assets as of September 30, 2014 is presented below:

(In thousands)	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	$24,560	$—	$24,560
Customer relationships & other intangibles	9.5	3,623	(1,156)	2,467
Patents	17	2,420	(308)	2,112
Total intangible assets		$30,603	$(1,464)	$29,139

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

A summary of intangible assets as of December 31, 2013 is presented below:

(In thousands)	Weighted Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	$24,560	$—	$24,560
Customer relationships & other intangibles	9.5	3,623	(864)	2,759
Patents	17	2,420	(202)	2,218
Total intangible assets		$30,603	$(1,066)	$29,537

NOTE 4. MARKETABLE SECURITIES

The composition of our short-term and long-term marketable securities as of September 30, 2014 is as follows:

(In thousands)	Contractual Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	$26,396	$10	$—	$26,406
Corporate debt securities	Less than 1	61,060	29	(2)	61,087
Commercial paper	Less than 1	41,415	8	(1)	41,422
Asset-backed securities	Less than 1	387	—	—	387
Total short-term marketable securities		$129,258	$47	$(3)	$129,302
Long-term:					
Municipal bonds	1-2	$5,686	$3	$—	$5,689
Corporate debt securities	1-2	18,436	1	(10)	18,427
Asset-backed securities	1-2	16,912	4	(2)	16,914
Securities of U.S. government-sponsored agencies	1-2	5,999	1	(2)	5,998
Total long-term marketable securities		$47,033	$9	$(14)	$47,028

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

Our short-term and long-term marketable securities as of December 31, 2013 were as follows:

(In thousands)	Contractual Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	$77,342	$17	$(15)	$77,344
Corporate debt securities	Less than 1	35,525	15	(11)	35,529
Commercial paper	Less than 1	36,083	6	—	36,089
Total short-term marketable securities		$148,950	$38	$(26)	$148,962
Long-term:					
Municipal bonds	1-2	$12,304	$13	$(1)	$12,316
Corporate debt securities	1-2	17,533	27	—	17,560
Asset-backed securities	1-2	6,651	2	(1)	6,652
Total long-term marketable securities		$36,488	$42	$(2)	$36,528

NOTE 5. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

(In thousands)	Balance at September 30, 2014	Level 1	Level 2	Level 3
Assets				
Cash equivalents	$55,735	$52,077	$3,658	$—
Municipal bonds	32,095	—	32,095	—
Corporate debt securities	79,514	—	79,514	—
Commercial paper	41,422	—	41,422	—
Asset-backed securities	17,301	—	17,301	—
Securities of U.S. government-sponsored agencies	5,998	—	5,998	—
Liabilities				
Acquisition-related contingent consideration	14,515	—	—	14,515

(In thousands)	Balance at December 31, 2013	Level 1	Level 2	Level 3
Assets				
Cash equivalents	$20,363	$800	$19,563	$—
Municipal bonds	89,660	—	89,660	—
Corporate debt securities	53,089	—	53,089	—
Commercial paper	36,089	—	36,089	—
Asset-backed securities	6,652	—	6,652	—
Liabilities				
Acquisition-related contingent consideration	14,177	—	—	14,177

Acquisition-related 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 acquisition-related 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 acquisition-related 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, 2014	December 31, 2013
Raw materials	$2,175	$1,369
Work in process	2,589	2,820
Finished goods	72,666	66,161
Total inventories	$77,430	$70,350

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

NOTE 7. ACCRUED EXPENSES

(In thousands)	September 30, 2014	December 31, 2013
Compensation and other employee-related costs	$16,609	$17,428
Legal and other settlements and expenses	26,044	23,765
Non-income taxes	4,502	2,938
Other	8,451	6,994
Total accrued expenses	$55,606	$51,125

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 was extended to May 2015. Cash advances bear interest at our option either at a fluctuating rate per annum equal to the daily LIBOR in effect for a one-month period plus 0.75%, or a fixed rate for a one- or three-month period equal to LIBOR plus 0.75%. The credit agreement 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, 2014, 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, 2014	70,586,709	23,877,556	94,464,265
December 31, 2013	66,065,197	27,377,556	93,442,753

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

The following table summarizes changes in total equity:

(In thousands)	Nine Months Ended September 30, 2014
Total equity, beginning of period	$472,360
Net income	64,847
Stock-based compensation	5,211
Exercise of stock options	7,644
Excess tax benefit of nonqualified stock options	4,044
Other comprehensive loss	(298)
Total equity, end of period	$553,808

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 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)

(In thousands)	Unrealized 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, 2012	$—	$(767)	$(767)
Other comprehensive income/(loss) before reclassifications	17	(371)	(354)
Amounts reclassified from accumulated other comprehensive income/(loss), net of tax	(4)	—	(4)
Other comprehensive income/(loss), net of tax	13	(371)	(358)
Accumulated other comprehensive income/(loss), net of tax, at September 30, 2013	$13	$(1,138)	$(1,125)

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

NOTE 10. STOCK-BASED COMPENSATION

We have three stock plans, but no additional shares will be issued under our Amended and Restated 2003 Stock Plan and our 2008 Stock Plan, leaving the 2012 Equity Incentive Plan (the "2012 Plan") as 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 monthly 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 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 covered by the 2012 Plan are authorized but unissued shares, treasury shares or shares of common stock purchased on the open market.

As of September 30, 2014, there were 6,277,749 shares of 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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Weighted average grant date per share fair value	$7.73	$7.17	$9.88	$6.05

Stock option activity during the nine months ended September 30, 2014 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, 2013	4,886	$10.04		
Granted	1,167	23.73		
Exercised	(1,022)	7.48		
Forfeited	(190)	15.12		
Outstanding at September 30, 2014	4,841	$13.69	7.1	$33,679
Exercisable at September 30, 2014	2,473	$8.76	5.5	$26,984

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

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Compensation expense related to stock options	$1,661	$1,387	$5,211	$3,865
Intrinsic value of stock options exercised	853	5,027	16,750	22,326

As of September 30, 2014, there was $15.5 million of unrecognized compensation expense related to unvested employee stock options that are expected to vest over a weighted average period of three years.

NOTE 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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Effective income tax rate	33.7 %	31.6 %	34.6 %	32.1 %

Our tax provision and effective rates for the three and nine months ended September 30, 2014 were primarily affected by a reduction in uncertain tax positions related to Internal Revenue Service 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, the research and experimentation credit has not been extended for 2014, having an estimated 0.8% impact to the effective rate for the year. The tax provision and effective rate for the three months ended September 30, 2013 were primarily affected by disqualifying dispositions and the existence of the research and experimentation credit that was passed as part of the American Taxpayer Relief Act of 2012 (“ATRA”) for 2013, while the tax provision and effective rate for the nine months ended September 30, 2013 were primarily affected by the litigation charges and the timing of the ATRA.

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.

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

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. This matter is in its very early stages, and 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.

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.

As of December 31, 2013, we accrued $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 nine months ended September 30, 2014, we accrued an additional $0.5 million in interest included in provision for litigation related to this litigation.

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

L5 Litigation

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

NuVasive Infringement Litigation

In October 2010, NuVasive, Inc. filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. NuVasive, the patent owner, alleges that we infringe one or more claims of three patents by making, using, offering for sale or selling our MARS 3V™ retractor for use in certain lateral fusion procedures. NuVasive seeks injunctive relief and an unspecified amount in damages. We intend to defend our rights vigorously. Additionally, we sought inter partes reexaminations of the three patents asserted by NuVasive in the USPTO, which were granted in April 2012. In August 2012, the examiner withdrew the original grounds of rejection of the patents asserted by NuVasive, and we are in the process of appealing the examiner's decision. In June 2014, the USPTO found that the claims of one of the three patents are invalid and found that the claims of the second of the three patents are affirmed as valid. The appeal of the third patent is still pending. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

NuVasive Employee Litigation

We have hired several employees who were formerly employed by NuVasive, Inc. In July 2011, NuVasive filed suit against us in the District Court of Travis County, Texas alleging that our hiring of one named former employee and other unnamed former employees constitutes tortious interference with its contracts with those employees, and with prospective business relationships, as well as aiding and abetting the breach of fiduciary duty. NuVasive is seeking compensatory damages, permanent injunction, punitive damages and attorneys' fees. Trial is currently scheduled for February 2015. We intend to defend our rights vigorously. The probable outcome of this litigation cannot be determined, nor can we estimate a range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

Bianco Litigation

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

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

On October 1, 2013, Bianco amended his complaint to claim that his trade secrets and confidential information were also used improperly in developing our RISE® and CALIBER-L® products.

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

We do not expect the verdict to impact our ability to conduct our business or to have any material impact on our future revenues. We believe the facts and the law do not support the jury's findings of misappropriation of trade secret and will seek to overturn the verdict through the appeals process.

Altus Partners, LLC Litigation

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

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

NOTE 13. RELATED-PARTY TRANSACTIONS

We have contracted with a third-party manufacturer in which certain of our senior management and significant stockholders have or had ownership interests and leadership positions.

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

	Three Months Ended		Nine Months Ended	
(In thousands)	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Purchases from related-party supplier	$5,163	$4,478	$15,954	$15,987

As of September 30, 2014 and December 31, 2013, we had $3.9 million and $2.7 million, respectively, of accounts payable due to the supplier.

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

NOTE 14. SEGMENT AND GEOGRAPHIC INFORMATION

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

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
United States	$106,601	$98,109	$309,937	$292,487
International	11,186	9,078	35,633	26,727
Total sales	$117,787	$107,187	$345,570	$319,214

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Innovative Fusion	$67,726	$62,620	$200,356	$186,929
Disruptive Technology	50,061	44,567	145,214	132,285
Total sales	$117,787	$107,187	$345,570	$319,214

NOTE 15. SUBSEQUENT EVENTS

On October 23, 2014, we acquired 100% of the equity interests of Transplant Technologies of Texas, Ltd. (“TTOT”) for $35 million in cash. In addition to the initial purchase price, we may be obligated to make various working capital adjustments and milestone payments of up to $15 million based on sales thresholds from the product lines we acquired. Based in San Antonio, TTOT was a privately held allograft tissue processor focused on providing human tissue products including bone allografts, biomaterials and soft tissue products for the orthopedics markets. These products will complement our existing biologics product portfolio and represents a step in fulfilling our strategy of building a broad business in regenerative biologics. TTOT’s products and capabilities will assist in positioning us in existing allograft markets while also providing a dedicated source of supply for our pipeline of products utilizing human allograft tissue.

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.

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Overview

We are a medical device company focused exclusively on the design, development and commercialization of musculoskeletal implants. We are currently focused on implants that promote healing in patients with spine disorders. We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures that assist surgeons in effectively treating their patients, respond to evolving surgeon needs and address new treatment options. Since our inception in 2003, we have launched over 130 products and offer a comprehensive product portfolio of innovative and differentiated products addressing a broad array of spinal pathologies, anatomies and surgical approaches.

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

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

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

During the nine months ended September 30, 2014, our international sales accounted for approximately 10% of our total sales. We sell our products in 33 countries outside the United States through a combination of direct sales representatives employed by us and international distributors. We believe there are significant opportunities for us to increase our presence in both existing and new international markets through the continued expansion of our direct and distributor sales forces and the commercialization of additional products.

On October 23, 2014, we acquired 100% of the equity interests of Transplant Technologies of Texas, Ltd. (“TTOT”) for $35 million in cash. In addition to the initial purchase price, we may be obligated to make various working capital adjustments and milestone payments of up to $15 million based on sales thresholds from the product lines we acquired. Based in San Antonio, TTOT was a privately held allograft tissue processor focused on providing human tissue products including bone allografts, biomaterials and soft tissue products for the orthopedics markets. These products will complement our existing biologics product portfolio and represents a step in fulfilling our strategy of building a broad business in regenerative biologics. TTOT’s products and capabilities will assist in positioning us in existing allograft markets while also providing a dedicated source of supply for our pipeline of products utilizing human allograft tissue.

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Results of Operations

Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013

Sales

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

(In thousands, except percentages)	Three Months Ended		Change		
	September 30, 2014	September 30, 2013	$	%	
Innovative Fusion	$67,726	$62,620	$5,106	8.2	%
Disruptive Technology	50,061	44,567	5,494	12.3	%
Total sales	$117,787	$107,187	$10,600	9.9	%

Product launches continue to be a driving force in our sales growth, particularly from products launched during the last three years. Innovative Fusion sales increased by $5.1 million due primarily to strong sales of legacy and new pedicle screw systems. The growth in Disruptive Technology of $5.5 million was due primarily to sales of minimally invasive, biologic, artificial disc and interventional pain management products launched during the past three years.

(In thousands, except percentages)	Three Months Ended		Change		
	September 30, 2014	September 30, 2013	$	%	
United States	$106,601	$98,109	$8,492	8.7	%
International	11,186	9,078	2,108	23.2	%
Total sales	$117,787	$107,187	$10,600	9.9	%

In the United States, the increase in sales of $8.5 million was due primarily to expansion into new territories and increased penetration in existing territories. We saw strong sales in both Disruptive Technology and Innovative Fusion products, led by sales of legacy and new pedicle screw systems.

Internationally, the increase in sales of $2.1 million was due primarily to increased market penetration in existing international territories, as well as sales from expansion into five new countries and new territories in existing countries, with sales increases primarily driven by pedicle screw, minimally invasive and interbody systems.

Cost of Goods Sold

(In thousands, except percentages)	Three Months Ended		Change		
	September 30, 2014	September 30, 2013	$	%	
Cost of goods sold	$27,686	$25,315	$2,371	9.4	%
Percentage of sales	23.5 %	23.6 %			

The increase in cost of goods sold was due primarily to $1.3 million of increased sales volume and mix and an increase of freight costs of $0.8 million.

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Research and Development Expenses

(In thousands, except percentages)	Three Months Ended September 30, 2014		September 30, 2013		Change $		%	
Research and development	$8,146		$6,568		$1,578		24.0	%
Percentage of sales	6.9	%	6.1	%				

The increase in research and development expenses was due primarily to an increase of $0.8 million related to employee compensation, including employees for the recently acquired surgical robotic positioning system, and an increase of $0.8 million of project and clinical trial costs.

Selling, General and Administrative Expenses

(In thousands, except percentages)	Three Months Ended September 30, 2014		September 30, 2013		Change $		%	
Selling, general and administrative	$46,986		$45,702		$1,284		2.8	%
Percentage of sales	39.9	%	42.6	%				

The increase in selling, general and administrative expenses was due primarily to an increase of $0.7 million for expansion and growth of our international and domestic sales efforts, including hiring additional sales representatives and general administrative personnel, in addition to an increase of $0.6 million in legal expenses and other selling, general and administrative costs.

Provision for Litigation

(In thousands, except percentages)	Three Months Ended September 30, 2014		September 30, 2013		Change $		%	
Provision for litigation	$46		$99		$(53)		(53.5)	%
Percentage of sales	—	%	0.1	%				

The change in the provision for litigation, which includes settlement and verdict costs, was nominal compared to the prior year quarter.

Other Income/(Expense), Net

(In thousands, except percentages)	Three Months Ended September 30, 2014		September 30, 2013		Change $		%	
Other income/(expense), net	$(124)		$197		$(321)		(162.9)	%
Percentage of sales	(0.1)	%	0.2	%				

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

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Income Tax Provision

(In thousands, except percentages)	Three Months Ended September 30, 2014	September 30, 2013	Change $	%	
Income tax provision	$11,738	$9,390	$2,348	25.0	%
Effective income tax rate	33.7 %	31.6 %			

Our tax provision and effective rate for the three months ended September 30, 2014 were primarily affected by a 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. The tax provision and effective rate for the three months ended September 30, 2013 were primarily affected by disqualifying dispositions and the existence of the research and experimentation credit that was passed as part of the American Taxpayer Relief Act of 2012 ("ATRA") for 2013.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

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, 2014	September 30, 2013	Change $	%	
Innovative Fusion	$200,356	$186,929	$13,427	7.2	%
Disruptive Technology	145,214	132,285	12,929	9.8	%
Total sales	$345,570	$319,214	$26,356	8.3	%

Product launches continue to be a driving force in our sales growth, particularly from products launched during the last three years. Innovative Fusion sales increased by $13.4 million due to strong sales of legacy and new pedicle screw systems. The growth in Disruptive Technology of $12.9 million was due primarily to sales of minimally invasive, biologic, artificial disc and interventional pain management products launched during the past three years.

(In thousands, except percentages)	Nine Months Ended September 30, 2014	September 30, 2013	Change $	%	
United States	$309,937	$292,487	$17,450	6.0	%
International	35,633	26,727	8,906	33.3	%
Total sales	$345,570	$319,214	$26,356	8.3	%

In the United States, the increase in sales of $17.5 million was due primarily to expansion into new territories and increased penetration in existing territories. We saw strong sales in both Disruptive Technology and Innovative Fusion products, led by sales of legacy and new pedicle screw systems.

Internationally, the increase in sales of $8.9 million was due primarily to increased market penetration in existing international territories, as well as sales from expansion into five new countries and new territories in existing countries, with sales increases primarily driven by pedicle screw, minimally invasive and interbody systems.

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Cost of Goods Sold

(In thousands, except percentages)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change $	Change %
Cost of goods sold	$79,581	$72,309	$7,272	10.1 %
Provision for litigation - cost of goods sold	—	1,260	$(1,260)	(100)%
Total cost of goods sold	$79,581	$73,569	$6,012	8.2 %
Percentage of sales	23.0 %	23.0 %		

The increase in cost of goods sold was due primarily to $4.5 million of increased sales volume and mix, an increase of $1.7 million in freight, an increase of $1.8 million in depreciation, partially offset by a decrease of $1.3 million for inventory reserves and write-offs, primarily related to the prior year provision for litigation - cost of goods sold and a decrease of approximately $0.7 million due to changes in material and other costs.

Research and Development Expenses

(In thousands, except percentages)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change $	Change %
Research and development	$23,283	$20,452	$2,831	13.8 %
Percentage of sales	6.7 %	6.4 %		

The increase in research and development expenses was due primarily to an increase of $2.0 million in employee compensation, including employees for the recently acquired surgical robotic positioning system, and an increase of $0.8 million of project and clinical trial costs.

Selling, General and Administrative Expenses

(In thousands, except percentages)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change $	Change %
Selling, general and administrative	$140,089	$136,849	$3,240	2.4 %
Percentage of sales	40.5 %	42.9 %		

The increase in selling, general and administrative expenses was due primarily to an increase of $2.2 million for expansion and growth of our international sales efforts and an increase of $1.0 million in legal expenses, compensation and other selling, general and administrative costs.

Provision for Litigation

(In thousands, except percentages)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change $	Change %
Provision for litigation	$3,899	$18,418	$(14,519)	(78.8)%
Percentage of sales	1.1 %	5.8 %		

The provision for litigation in the current period was due primarily to the Bianco, Altus and other litigation matters. In the prior year period we recognized the DePuy Synthes litigation charge of $18.2 million in the nine months ended September 30, 2013. For additional information regarding litigation, please

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refer to “Part I; Item 1. Financial Statements; Notes to Consolidated Financial Statements; Note 12. Commitments and Contingencies” above.

Other Income, Net

(In thousands, except percentages)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change $	Change %
Other income, net	$446	$255	$191	74.9 %
Percentage of sales	0.1 %	0.1 %		

The change in other income, net is due primarily to increases in interest income and reductions in foreign exchange transaction losses, partially offset by decreases in miscellaneous income.

Income Tax Provision

(In thousands, except percentages)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change $	Change %
Income tax provision	$34,317	$22,554	$11,763	52.2 %
Effective income tax rate	34.6 %	32.1 %		

Our tax provision and effective rate for the nine months ended September 30, 2014 were primarily affected by a reduction in uncertain tax positions related to 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. The tax provision and effective rate for the nine months ended September 30, 2013 were primarily affected by the litigation charges and the timing of the ATRA.

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)/expense, net and other non-operating expenses, provision for income taxes, depreciation and amortization, stock-based compensation, changes in the fair value of acquisition-related contingent consideration, provision for litigation and provision for litigation - cost of goods sold, 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.

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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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net Income	$23,061	$20,310	$64,847	$47,627
Interest income, net	(181)	(146)	(577)	(336)
Provision for income taxes	11,738	9,390	34,317	22,554
Depreciation and amortization	5,373	4,859	16,057	14,211
EBITDA	39,991	34,413	114,644	84,056
Stock-based compensation	1,661	1,387	5,211	3,865
Provision for litigation	46	99	3,899	18,418
Provision for litigation - cost of goods sold	—	—	—	1,260
Change in fair value of acquisition-related contingent consideration	263	(134)	416	10
Adjusted EBITDA	$41,961	$35,765	$124,170	$107,609
Adjusted EBITDA as a percentage of sales	35.6%	33.4%	35.9%	33.7%

In addition, for the periods ended September 30, 2014 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 and provision for litigation - cost of goods sold, which are net of the tax effects of such provisions. 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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Diluted earnings per share, as reported	$0.24	$0.22	$0.68	$0.51
Provision for litigation (net of taxes)	—	—	0.03	0.12
Provision for litigation - cost of goods sold (net of taxes)	—	—	—	0.01
Non-GAAP diluted earnings per share	$0.24	$0.22	$0.71	$0.64

We also define the non-GAAP measure of Free Cash Flow as the net cash provided by operating activities, 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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net cash provided by operating activities	$35,645	$33,557	$77,227	$60,813
Purchases of property and equipment	(3,428)	(5,519)	(15,659)	(18,475)
Free cash flow	$32,217	$28,038	$61,568	$42,338

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

Cash Flows

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

	Nine Months Ended		Change
(In thousands)	September 30, 2014	September 30, 2013	$
Net cash provided by operating activities	$77,227	$60,813	$16,414
Net cash used in investing activities	(8,573)	(181,244)	172,671
Net cash provided by financing activities	10,788	9,740	1,048
Effect of foreign exchange rate changes on cash	45	198	(153)
Increase/(decrease) in cash and cash equivalents	$79,487	$(110,493)	$189,980

During the three months ended March 31, 2013, we changed our cash management program in an effort to increase the returns on our cash and cash equivalents. As a result, during the nine-month period ended September 30, 2013, we purchased $186.7 million of marketable securities. Since then, we have continued to invest in additional marketable securities. Our investment in marketable securities includes 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, 2014.

Cash Provided by Operating Activities

The increase in net cash provided by operating activities of $16.4 million was due primarily to the $7.0 million increase in net income excluding $2.5 million and $12.7 million in provision for litigation and provision for litigation - cost of goods sold (both net of taxes) during the nine months ended September 30, 2014 and 2013, respectively, a $3.2 million decrease in the change in inventories, a $2.3 million decrease in the change in prepaid and other assets, and a $1.3 million decrease in the change in accounts receivable, partially offset by the $5.4 million increase in income tax payments over the prior year period.

Cash Used in Investing Activities

The decrease in net cash used in investing activities of $172.7 million was due primarily to the difference in the amount of cash invested in marketable securities in comparative periods. During the nine month period ended September 30, 2014, we had a net inflow of $7.1 million of cash from maturities and sales exceeding purchases, whereas in the prior year period, we had a net cash outflow of $162.8 million as purchases of marketable securities exceeded maturities and sales.

Cash Provided by Financing Activities

The increase in cash provided by financing activities of $1.0 million was due primarily to the increase in the proceeds from the exercise of stock options of $1.4 million, partially offset by the decrease in the related excess tax benefit of $0.5 million.

Liquidity and Capital Resources

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

(In thousands)	September 30, 2014	December 31, 2013
Cash and cash equivalents	$169,449	$89,962
Short-term marketable securities	129,302	148,962
Long-term marketable securities	47,028	36,528
Total cash, cash equivalents and marketable securities	$345,779	$275,452

Available borrowing capacity under revolving credit facility	50,000	50,000
Working capital	$412,054	$348,866

During the nine months ended September 30, 2014, our cash and cash equivalents and marketable securities increased by $70.3 million, primarily as a result of our cash provided by operating activities. Our investment in marketable securities includes 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, 2014.

In May 2011, we entered into a credit agreement with Wells Fargo Bank related to a revolving credit facility that provides for borrowings up to $50.0 million. At our request, and with the approval of the bank, the amount of borrowings available under the revolving credit facility can be increased to $75.0 million. The revolving credit facility includes up to a $25.0 million sub-limit for letters of credit. As amended to date, the revolving credit facility was extended to May 2015. Cash advances bear interest at our option either at a fluctuating rate per annum equal to the daily LIBOR in effect for a one-month period plus 0.75%, or a fixed rate for a one- or three-month period equal to LIBOR plus 0.75%. The credit agreement 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, 2014, 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 October 23, 2014, we used $35 million of our cash and cash equivalents to acquire Transplant Technologies of Texas, Ltd. For additional information regarding this transaction, please refer to "Part I; Item 1. Financial Statements; Notes to Consolidated Financial Statements; Note 15. Subsequent Events" 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, 2014. 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

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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 FASB and the International Accounting Standards Board released a standard on the recognition of revenue from contracts with customers that 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 will take effect for public companies for annual reporting periods beginning after December 15, 2016, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the impact of the new standard 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, 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, 2013 (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

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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 in our 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, 2014. 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, 2014, 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, 2014 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

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its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in a number of legal proceedings, suits and claims. These 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

Use of Proceeds

The remaining proceeds from our initial public offering as described in our final prospectus ("Final Prospectus") filed with the SEC on August 3, 2012, pursuant to Rule 424(b) have been used for the October 23, 2014, acquisition of 100% of the equity interests of Transplant Technologies of Texas, Ltd. for $35 million in cash. No further proceeds from the initial public offering remain. There was no material change in the use of proceeds from our initial public offering as described in the Final Prospectus.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

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

Exhibit No.	Item
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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLOBUS MEDICAL, INC.

Dated: October 31, 2014

/s/ DAVID C. PAUL

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

Dated: October 31, 2014

/s/ RICHARD A. BARON

Richard A. Baron
Senior Vice President
Chief Financial Officer
(Principal Financial Officer)

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