

GLOBUS MEDICAL INC
Form 10-Q
November 08, 2018
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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, 2018
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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files):
Yes ☒ No ☐

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes ☐ No ☒

The number of shares outstanding of the issuer's common stock (par value \$0.001 per share) as of October 31, 2018 was 98,481,062 shares.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except par value)	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 145,295	\$ 118,817
Short-term marketable securities	227,466	254,890
Accounts receivable, net of allowances of \$3,655 and \$3,963, respectively	118,847	116,676
Inventories	124,372	108,409
Prepaid expenses and other current assets	13,951	11,166
Current portion of note receivable	3,333	1,667
Income taxes receivable	13,137	8,717
Total current assets	646,401	620,342
Property and equipment, net of accumulated depreciation of \$210,120 and \$191,760, respectively	161,768	143,167
Long-term marketable securities	168,850	56,133
Note receivable	25,833	28,333
Intangible assets, net	89,522	78,659
Goodwill	124,015	123,890
Other assets	6,726	7,947
Deferred income taxes	15,391	20,031
Total assets	\$ 1,238,506	\$ 1,078,502
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 23,061	\$ 25,039
Accrued expenses	47,764	52,594
Income taxes payable	2,322	3,274
Business acquisition liabilities	6,693	11,411
Deferred revenue	1,878	755
Total current liabilities	81,718	93,073
Business acquisition liabilities, net of current portion	3,378	4,508
Deferred income taxes	9,623	10,669
Other liabilities	2,670	2,474
Total liabilities	97,389	110,724
Commitments and contingencies (Note 13)		
Equity:		
Class A common stock; \$0.001 par value. Authorized 500,000 shares; issued and outstanding 76,020 and 72,780 shares at September 30, 2018 and December 31, 2017, respectively	76	73
Class B common stock; \$0.001 par value. Authorized 275,000 shares; issued and outstanding 22,430 and 23,878 shares at September 30, 2018 and December 31, 2017, respectively	23	24
Additional paid-in capital	291,875	238,341

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Accumulated other comprehensive loss	(6,828	) (6,907	)
Retained earnings	855,971	736,247	
Total equity	1,141,117	967,778	
Total liabilities and equity	\$ 1,238,506	\$ 1,078,502	
See accompanying notes to condensed consolidated financial statements.			

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

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Sales	\$169,236	\$ 151,744	\$517,031	\$ 459,943
Cost of goods sold	37,849	36,798	113,456	109,597
Gross profit	131,387	114,946	403,575	350,346
Operating expenses:				
Research and development	15,527	10,887	41,738	32,266
Selling, general and administrative	75,131	63,362	227,949	194,859
Provision for litigation	—	2,537	—	2,780
Amortization of intangibles	2,160	2,080	6,525	5,671
Acquisition related costs	268	285	1,289	1,290
Total operating expenses	93,086	79,151	277,501	236,866
Operating income	38,301	35,795	126,074	113,480
Other income, net				
Interest income/(expense), net	3,852	1,738	9,114	4,746
Foreign currency transaction gain/(loss)	(26)	) (315	) 312	681
Other income/(loss)	470	139	5,478	421
Total other income/(expense), net	4,296	1,562	14,904	5,848
Income before income taxes	42,597	37,357	140,978	119,328
Income tax provision	7,389	11,766	21,254	36,356
Net income	\$35,208	\$ 25,591	\$ 119,724	\$ 82,972
Earnings per share:				
Basic	\$0.36	\$ 0.27	\$1.23	\$ 0.86
Diluted	\$0.35	\$ 0.26	\$1.18	\$ 0.85
Weighted average shares outstanding:				
Basic	98,328	96,318	97,671	96,160
Dilutive stock options	3,476	1,531	3,604	1,447
Diluted	101,804	97,849	101,275	97,607
Anti-dilutive stock options excluded from weighted average calculation	1,950	2,611	1,892	3,462

See accompanying notes to condensed consolidated financial statements.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$35,208	\$ 25,591	\$119,724	\$ 82,972
Other comprehensive income/(loss):				
Unrealized gain/(loss) on marketable securities, net of tax	96	7	29	150
Foreign currency translation gain/(loss)	(116)	(313)	50	2,314
Total other comprehensive income/(loss)	(20)	(306)	79	2,464
Comprehensive income	\$35,188	\$ 25,285	\$119,803	\$ 85,436

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
(In thousands)	September 30, 2018	September 30, 2017
Cash flows from operating activities:		
Net income	\$ 119,724	\$ 82,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,694	33,773
Amortization of premium on marketable securities	1,808	2,258
Write-down for excess and obsolete inventories	8,326	8,158
Stock-based compensation expense	17,078	10,659
Allowance for doubtful accounts	388	1,135
Change in fair value of business acquisition liabilities	592	1,011
Change in deferred income taxes	1,606	815
(Gain)/loss on disposal of assets, net	(3,694)	—
(Increase)/decrease in:		
Accounts receivable	(2,900)	(2,200)
Inventories	(23,042)	(6,956)
Prepaid expenses and other assets	(81)	(974)
Increase/(decrease) in:		
Accounts payable	(4,858)	(344)
Accrued expenses and other liabilities	(1,965)	(9,377)
Income taxes payable/receivable	(5,324)	(6,709)
Net cash provided by operating activities	137,352	114,221
Cash flows from investing activities:		
Purchases of marketable securities	(382,347)	(227,699)
Maturities of marketable securities	210,066	168,418
Sales of marketable securities	85,234	34,751
Purchases of property and equipment	(42,538)	(37,878)
Proceeds from sale of assets	4,000	—
Acquisition of businesses, net of cash acquired, and purchases of intangible and other assets	(14,825)	(31,501)
Net cash used in investing activities	(140,410)	(93,909)
Cash flows from financing activities:		
Payment of business acquisition liabilities	(6,513)	(5,234)
Proceeds from exercise of stock options	36,245	6,943
Net cash provided by financing activities	29,732	1,709
Effect of foreign exchange rate on cash	(196)	778
Net increase in cash, cash equivalents, and restricted cash	26,478	22,799
Cash, cash equivalents, and restricted cash at beginning of period	118,817	67,431
Cash, cash equivalents, and restricted cash at end of period	\$ 145,295	\$ 90,230
Supplemental disclosures of cash flow information:		
Interest paid	—	34
Income taxes paid	\$ 24,894	\$ 49,008
See accompanying notes to condensed consolidated financial statements.		

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED 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 that develops and commercializes solutions for the treatment of musculoskeletal disorders. We are primarily focused on implants that promote healing in patients with spine disorders, but recently launched a robotic guidance and navigation system and products to treat patients who have experienced orthopedic traumas.

We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures 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 190 products and offer a comprehensive portfolio of innovative and differentiated products addressing a broad array of spinal pathologies, anatomies and surgical approaches.

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 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, 2017.

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.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

During the fourth quarter of 2017, the Company identified and recorded an adjustment to its December 31, 2016 consolidated balance sheet to correct the presentation of \$65.8 million of its Variable Rate Demand Notes (“VRDNs”) as short-term marketable securities instead of cash and cash equivalents. Accordingly, the statement of cash flows for the year ended December 31, 2016 has been adjusted to appropriately increase purchases of marketable securities by \$63.3 million, resulting in an increase in net cash used in investing activities and a decrease to cash and cash equivalents, end of period of \$63.3 million. The statement of cash flows for the year ended December 31, 2015 has been adjusted to appropriately increase purchases of marketable securities by \$2.5 million, resulting in an increase in net cash used in investing activities and a decrease to cash and cash equivalents, end of period of \$2.5 million. The statement of cash flows for the nine months ended September 30, 2017 has been adjusted to appropriately increase purchases of marketable securities, maturities of marketable securities and sales of marketable securities by \$24.1 million, \$2.0 million and \$23.2 million respectively, resulting in a decrease in net cash used in investing activities and an increase to cash and cash equivalents, end of period of \$1.1 million.

In accordance with FASB Topic ASC 320, Investments-Debt and Equity Securities, based on our ability to market and sell these instruments and our intent to not hold such instruments until maturity, we account for VRDNs as available-for-sale, and carry them at their fair value. VRDNs are similar to short-term debt instruments because their interest rates are reset periodically. Investments in these securities can be sold for cash on the auction date. We classified VRDNs at September 30, 2017 as short-term based on the reset dates. The Company did not own VRDNs as of December 31, 2017 and does not own VRDNs as of September 30, 2018.

(c) Principles of Consolidation

The accompanying condensed 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 condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates, in part, on historical experience that management believes to be reasonable under the circumstances. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the condensed consolidated financial statements in the period they are determined to be necessary.

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

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

During fourth quarter of 2017, we completed a review of the estimated useful life of our Instruments and Modules and cases. Based on historical useful life information, forecasted product life cycles and demand expectations, the useful life of Instruments and Modules and cases was extended from three to five years. This was accounted for as a change in accounting estimate and was made on a prospective basis effective October 1, 2017. For the three months ended September 30, 2018, depreciation expense was lower by approximately \$1.3 million than it would have been had the useful life of these assets not been extended. The effect of this change on basic and diluted earnings per share for the three months ended September 30, 2018 was \$0.01 per share. For the nine months ended September 30, 2018, depreciation expense was lower by approximately \$4.4 million with a diluted earnings per share impact of \$0.04 per share.

(e) Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

(In thousands)	September 30, 2018	December 31, 2017	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 145,295	\$ 118,817	\$ 90,230	\$ 66,954
Restricted cash	—	—	—	477
Total cash, cash equivalents, and restricted cash as presented in the condensed consolidated statement of cash flows	\$ 145,295	\$ 118,817	\$ 90,230	\$ 67,431

(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, 2018. Available-for-sale securities are recorded at fair value in both short-term and long-term marketable securities on our condensed 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 or loss on our condensed consolidated balance sheets. Premiums and discounts are recognized over the life of the related security as an adjustment to yield using the straight-line method. Realized gains or losses from the sale of 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 condensed consolidated statements of income. Interest receivable is recorded as a component of prepaid expenses and other current assets on our condensed 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 condensed consolidated statement of income in the period the determination is made.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(g) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis. The majority of our inventories are finished goods and we utilize both in-house manufacturing and 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) Property and Equipment

Purchases of property and equipment included in accounts payable and accrued expenses were \$7.9 million and \$4.5 million during the nine months ended September 30, 2018 and September 30, 2017, respectively.

(i) Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. Sales and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. For purposes of disclosing disaggregated revenue, we disaggregate our revenue, into two categories, Spine and Emerging Technologies, based on the timing of revenue recognition. Our Spine products are comprised of our entire spinal implant portfolio, including traditional interbody fusion devices, our expandable cages, products designed for minimally invasive surgical techniques, motion preservation devices, regenerative biologics technologies and interventional pain management solutions. The majority of our Spine contracts have a single performance obligation and revenue is recognized at a point in time. Our Emerging Technology products consist of our imaging, navigational and robotic ("INR") technologies and orthopedic trauma devices. The majority of our Emerging Technology product contracts typically contain multiple performance obligations, including maintenance and support, and revenue is recognized as we fulfill each performance obligation. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. Our policy is to classify shipping and handling costs billed to customers as sales and the related expenses as cost of goods sold.

Nature of Products and Services

A significant portion of our Spine product revenue is generated from consigned inventory maintained at hospitals or with sales representatives. Revenue from the sale of consigned Spine products is recognized when we transfer control, which occurs at the time the product is used or implanted. For all other Spine product transactions, we recognize revenue when we transfer title to the goods, provided there are no remaining performance obligations that will affect the customer's final acceptance of the sale. We use an observable price to determine the stand-alone selling price for the identified performance obligation.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Revenue from the sale of Emerging Technology products is generally recognized when title transfers to the customer which occurs at the time the product is shipped or delivered. Depending on the terms of the arrangement, we may also defer the recognition of a portion of the consideration received as we have to satisfy a future performance obligation to provide maintenance and support. We use an observable price to determine the stand-alone selling price for each separate performance obligation.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. We record a receivable when revenue is recognized prior to invoicing, or deferred revenue when revenue is recognized subsequent to invoicing. Deferred revenue is comprised mainly of unearned revenue related to the sales of certain Emerging Technology products, which includes maintenance and support services. Deferred revenue is generally invoiced annually at the beginning of each contract period and recognized ratably over the coverage period. For the three and nine months ended September 30, 2018, there was an immaterial amount of revenue recognized from previously deferred revenue.

Disaggregation of Revenue

The following table represents total sales by revenue stream:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
(In thousands)				
Spine products	\$162,952	\$151,744	\$484,149	\$459,943
Emerging Technology products	6,284	—	32,882	—
Total sales	\$169,236	\$151,744	\$517,031	\$459,943

(j) Other Income

On June 21, 2018, we sold assets for \$5.0 million, of which \$3.0 million was collected upon closing of the sale and the remaining \$2.0 million recorded under prepaid expenses and other current assets. As of September 30, 2018, \$1.0 million remains recorded under prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet.

(k) Recently Issued Accounting Pronouncements

In February 2016, the FASB released ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases with terms greater than 12 months, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and permits modified retrospective method or cumulative-effect adjustment method. We have elected to apply the cumulative-effect adjustment transition method and will record the adjustment to the opening balance of retained earnings in the period of adoption. We are evaluating the impact of this update on our financial position, results of operations, and disclosures, and assessing our internal controls and key system functionality to enable the preparation of financial information upon adoption.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In January 2017, the FASB released ASU 2017-04, Intangibles - Goodwill and Other (Topic 805): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which eliminates the Step 2 calculation for the implied fair value of goodwill to measure a goodwill impairment charge. Under the updated standard, an entity will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. ASU 2017-04 does not change the guidance on completing Step 1 of the goodwill impairment test and still allows an entity to perform the optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. This update is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted for any impairment test performed on testing dates after January 1, 2017. We are currently evaluating the timing and impact of the new standard on our financial position, results of operations and disclosures.

In February 2018, the FASB released ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). Prior to ASU 2018-02, GAAP required the remeasurement of deferred tax assets and liabilities as a result of a change in tax laws or rates to be presented in net income from continuing operations, even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income. As a result, such items, referred to as stranded tax effects, did not reflect the appropriate tax rate. Under ASU 2018-02, entities are permitted, but not required, to reclassify from accumulated other comprehensive income to retained earnings those stranded tax effects resulting from the Tax Act. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the timing and impact of the new standard on our financial position, results of operations and disclosures.

In June 2018, the FASB released ASU 2018-07, Compensation—Stock Compensation (Topic 718), ("ASU 2018-07"), which expanded the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. This update is effective for public entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the timing and impact of the new standard on our financial position, results of operations and disclosures.

In August 2018, the FASB released ASU 2018-13, Fair Value Measurement (Topic 820), ("ASU 2018-13"), which modifies the disclosure requirements on fair value measurements in Topic 820, including the consideration of costs and benefits. This update is effective for public entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the timing and impact of the new standard on our financial position, results of operations and disclosures.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(l) Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 amends the guidance in former Topic 605, Revenue Recognition, and most other existing revenue guidance in US GAAP. Under the new standard, an entity will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services and provide additional disclosures. As amended, the effective date for public entities is annual reporting periods beginning after December 15, 2017 and interim periods therein. We adopted the standard on January 1, 2018, using the modified retrospective method. We implemented internal controls and key system functionality to enable the preparation of financial information upon adoption. The adoption of this standard did not have a material impact on our financial position, results of operations, and disclosures.

In October 2016, the FASB released ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). ASU 2016-16 removes the current exception in US GAAP prohibiting entities from recognizing current and deferred income tax expenses or benefits related to transfer of assets, other than inventory, within the consolidated entity. The current exception to defer the recognition of any tax impact on the transfer of inventory within the consolidated entity until it is sold to a third party remains unaffected. This update is effective for public entities for annual reporting periods beginning after December 15, 2017. We adopted ASU 2016-16 on January 1, 2018. This standard does not have a material impact on our financial position, results of operations, and disclosures.

In November 2016, the FASB released ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. Transfers between cash and cash equivalents and restricted cash and restricted cash equivalents will no longer be presented in the statement of cash flows. The amendments in this update should be applied using a retrospective transition method to each period presented. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years; early adoption is permitted, including adoption in an interim period. We adopted ASU 2016-18 on January 1, 2018. This standard does not have a material impact on our financial position, results of operations, and disclosures.

In January 2017, the FASB released ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01"), which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this ASU should be applied prospectively and are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early application permitted. No disclosures are required at transition. We adopted ASU 2017-01 on January 1, 2018. This standard does not have a material impact on our financial position, results of operations, and disclosures.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In May 2017, the FASB released ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”), which clarifies the changes to terms or conditions of a share based payment award that requires application of modification accounting under Topic 718. A change to an award should be accounted for as a modification unless the fair value of the modified award is the same as the original award, the vesting conditions do not change, and the classification as an equity or liability instrument does not change. This update is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2017. Early application is permitted and prospective application is required for awards modified on or after the adoption date. We adopted ASU 2017-09 on January 1, 2018. This standard does not have a material impact on our financial position, results of operations, and disclosures.

NOTE 2. ACQUISITIONS

KB Medical

On June 13, 2017, we acquired KB Medical SA (“KB Medical”), a Swiss-based robotic developer, to further bolster our development team, intellectual property, and product portfolio (the “KB Medical Acquisition”). We have included the financial results of KB Medical in our condensed consolidated financial statements from the acquisition date, and the results from KB Medical were not material to our condensed consolidated financial statements. We accounted for the KB Medical Acquisition under the purchase method of accounting. Amounts recognized for assets acquired and liabilities assumed are based on our 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. The fair value of the consideration for the KB Medical Acquisition was approximately \$31.5 million of cash paid at closing, plus a potential \$4.9 million contingent consideration payment based on product development milestones. We recorded \$20.2 million of identifiable net assets, based on their estimated fair values, and goodwill of \$16.2 million. None of the goodwill is expected to be deductible for tax purposes.

As of September 30, 2018, the maximum aggregate undiscounted amount of contingent consideration potentially payable related to the KB Medical Acquisition is \$5.2 million.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The table below represents the purchase price allocation for the identifiable tangible and intangible assets and liabilities of KB Medical:

(In thousands)

Consideration:

Cash paid at closing	\$31,501
Purchase price contingent consideration	4,871
Fair value of consideration	\$36,372

Identifiable assets acquired and liabilities assumed:

Cash acquired	\$1,557
Prepaid and other current assets	168
Intangible assets, gross	24,500
Other assets	18
Accounts payable and accrued expenses	(1,312)
Deferred tax liabilities	(4,727)
Total identifiable net assets	20,204

Goodwill	16,168
Total allocated purchase price	\$36,372

NOTE 3. NOTE RECEIVABLE

On September 1, 2016 (the “Closing Date”), in connection with the acquisition of the international operations and distribution channel of Alphatec Holdings, Inc. (“Alphatec International”), we entered into a Credit, Security and Guaranty Agreement (the “Credit Agreement”) with Alphatec Holdings, Inc. (“Alphatec”) and Alphatec Spine, Inc. (“Alphatec Spine” and together with Alphatec, the “Alphatec Borrowers”), pursuant to which we made available to the Alphatec Borrowers a senior secured term loan facility in an amount not to exceed \$30.0 million. On the Closing Date, we made an initial loan of \$25.0 million and the Alphatec Borrowers issued a note for such amount to us. On December 20, 2016, the remaining \$5.0 million was drawn by the Alphatec Borrowers and added to the note.

The Credit Agreement contains customary operational and financial covenants, including a fixed charge coverage ratio to be maintained by the Alphatec Borrowers, and provides us with a security interest in all of the assets of the Alphatec Borrowers. The Credit Agreement has a scheduled maturity date five years from the Closing Date. The term loan interest rate for the first two years following the Closing Date is priced at the London Interbank Offered Rate (“LIBOR”) plus 8.0%, subject to a 9.5% floor. The term loan interest rate thereafter will be LIBOR plus 13.0%.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On March 30, 2017, we entered into a First Amendment to the Credit Agreement which modified the time periods during which the Alphatec Borrowers are required to calculate the fixed charge coverage ratio in order to determine compliance with the Credit Agreement. On March 8, 2018, we entered into a Consent, Joinder and Second Amendment pursuant to which, among other things, (i) we consented to the acquisition by Alphatec of SafeOp Surgical, Inc. (“SafeOp”), (ii) SafeOp joined the Credit Agreement as a “Borrower” thereunder, and (iii) we modified the time periods during which the Alphatec Borrowers (including SafeOp) are required to calculate the fixed charge coverage ratio in order to determine compliance with the Credit Agreement. The first period subject to compliance of the fixed charge coverage ratio is the month ended April 30, 2019.

Interest accrues on the note receivable based on the contractual terms of the note. We consider a note to be impaired when, based on current information or factors (such as payment history, value of collateral and assessment of the borrower’s current creditworthiness), it is probable that the principal and interest payments will not be collected according to the note agreement. As of September 30, 2018, we do not consider this note to be impaired. We believe that the note’s carrying value approximates its fair value.

NOTE 4. GOODWILL AND INTANGIBLE ASSETS

A summary of intangible assets is presented below:

(In thousands)	Weighted Average Amortization Period (in years)	September 30, 2018		
		Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	\$20,312	\$ —	\$ 20,312
Supplier network	10.0	4,000	(1,567)	) 2,433
Customer relationships & other intangibles	6.8	41,800	(15,949)	) 25,851
Developed technology	8.8	36,623	(2,217)	) 34,406
Patents	16.5	7,748	(1,228)	) 6,520
Total intangible assets		\$110,483	\$ (20,961)	) \$ 89,522

On September 5, 2018, we acquired Nemaris, Inc. (“Nemaris”), a privately held company that markets and develops Surgimap®, a leading surgical planning software platform, to further bolster our efforts to advance the future of computer-assisted surgery technologies (the “Nemaris Acquisition”). The assets of the Nemaris Acquisition consist primarily of developed technology and other intangible assets. We determined that substantially all the fair value of the gross assets on the date of acquisition is captured in the developed technology and as a result, the Nemaris acquisition was accounted for as an asset purchase. We allocated the consideration paid of \$15.2 million on a pro rata basis to the assets acquired on their respective fair values. Acquired assets include developed technology of \$13.1 million, assembled workforce of \$0.4 million, and other identifiable net assets of \$1.7 million. The useful lives of the developed technology and assembled workforce are seven years and one year, respectively, and will be amortized on a straight-line basis. In addition to the cash paid at closing, there is a potential \$10.0 million contingent consideration payment based on product development milestones.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(In thousands)	Weighted Average Amortization Period (in years)	December 31, 2017		
		Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	\$20,003	\$ —	\$ 20,003
Supplier network	10.0	4,000	(1,267)	2,733
Customer relationships & other intangibles	6.8	41,345	(11,589)	29,756
Developed technology	10.0	20,460	(682)	19,778
Patents	16.9	7,389	(1,000)	6,389
Total intangible assets		\$93,197	\$ (14,538)	\$ 78,659

A summary of the net carrying value of goodwill is presented below:

(In thousands)

December 31, 2016	\$105,926
Additions and adjustments	17,907
Foreign exchange	57
December 31, 2017	123,890
Additions and adjustments	—
Foreign exchange	125
September 30, 2018	\$124,015

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 5. MARKETABLE SECURITIES

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

September 30, 2018					
(In thousands)	Contractual Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	\$50,925	\$ —	\$ (50)	\$50,875
Corporate debt securities	Less than 1	146,816	10	(113)	146,713
Commercial paper	Less than 1	14,875	—	(6)	14,869
U.S. government and agency securities	Less than 1	4,488	—	(6)	4,482
Asset-backed securities	Less than 1	10,578	—	(51)	10,527
Total short-term marketable securities		\$227,682	\$ 10	\$ (226)	\$227,466
Long-term:					
Municipal bonds	1-2	\$4,746	\$ —	\$ (28)	\$4,718
Corporate debt securities	1-2	62,299	55	(61)	62,293
Asset-backed securities	1-2	101,955	7	(123)	101,839
Total long-term marketable securities		\$169,000	\$ 62	\$ (212)	\$168,850
December 31, 2017					
(In thousands)	Contractual Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	\$124,817	\$ 1	\$ (141)	\$124,677
Corporate debt securities	Less than 1	64,599	5	(68)	64,536
Commercial paper	Less than 1	55,768	—	(27)	55,741
U.S. government and agency securities	Less than 1	9,960	—	(24)	9,936
Total short-term marketable securities		\$255,144	\$ 6	\$ (260)	\$254,890
Long-term:					
Municipal bonds	1-2	\$15,285	\$ —	\$ (48)	\$15,237
Corporate debt securities	1-2	17,155	3	(39)	17,119
Asset-backed securities	1-2	23,841	—	(64)	23,777
Total long-term marketable securities		\$56,281	\$ 3	\$ (151)	\$56,133

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6. FAIR VALUE MEASUREMENTS

Under the accounting for fair value measurements and disclosures, fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or the liability in an orderly transaction between market participants on 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, 2018	Level 1	Level 2	Level 3
Assets				
Cash equivalents	\$ 42,058	\$10,840	\$31,218	\$ —
Municipal bonds	55,593	—	55,593	—
Corporate debt securities	209,006	—	209,006	—
Commercial paper	14,869	—	14,869	—
Asset-backed securities	112,366	—	112,366	—
U.S. government and agency securities	4,482	—	4,482	—
Liabilities				
Business acquisition liabilities	10,071	—	—	10,071

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(In thousands)	Balance at December 31, 2017	Level 1	Level 2	Level 3
Assets				
Cash equivalents	\$ 31,549	\$5,927	\$25,622	\$ —
Municipal bonds	139,914	—	139,914	—
Corporate debt securities	81,655	—	81,655	—
Commercial paper	55,741	—	55,741	—
Asset-backed securities	23,777	—	23,777	—
U.S. government and agency securities	9,936	—	9,936	—

Liabilities

Business acquisition liabilities	15,919	—	—	15,919
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Our marketable securities are classified as Level 2 within the fair value hierarchy, as we measure their fair value using market prices for similar instruments and inputs such as actual trade data, benchmark yields, broker/dealer quotes and other similar data obtained from quoted market prices or independent pricing vendors.

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

The purchase price of business acquisitions is primarily allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition dates, with the excess recorded as goodwill. We utilize Level 3 inputs in the determination of the initial fair value. Non-financial assets such as goodwill, intangible assets, and property, plant, and equipment are subsequently measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment is recognized. We assess the impairment of intangible assets annually or whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. The fair value of our goodwill and intangible assets is not estimated if there is no change in events or circumstances that indicate the carrying amount of an intangible asset may not be recoverable.

Business acquisition liabilities 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 business acquisition liabilities uses assumptions we believe would be made by a market participant. We assess these estimates on an ongoing basis as additional data impacting the assumptions is obtained. The balances of the fair value of contingent consideration are recognized within business acquisition liabilities on our condensed consolidated balance sheets, and the changes in the fair value of business acquisition liabilities are recognized within acquisition related costs in the condensed consolidated statements of income.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The recurring Level 3 fair value measurements of our business acquisition liabilities include the following significant unobservable inputs, which have not materially changed since December 31, 2017:

(In thousands)	Fair Value at September 30, 2018	Valuation technique	Unobservable input	Range
Revenue-based payments	\$ 5,173	Discounted cash flow	Discount rate	8.5%
			Probability of payment	87.0% - 100.0%
			Projected year of payment	2018 - 2029
Milestone-based payments	\$ 4,898	Discounted cash flow	Discount rate	4.4%
			Probability of payment	100.0%
			Projected year of payment	2018

The following table provides a reconciliation of the beginning and ending balances of business acquisition liabilities:

(In thousands)	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2018	2017	2018	2017
Beginning balance	\$10,322	\$ 20,339	\$15,919	\$ 19,849
Purchase price contingent consideration	—	—	—	4,871
Changes resulting from foreign currency fluctuations	135	(15)	72	27
Contingent payments	(563)	—	(6,513)	(5,234)
Changes in fair value of business acquisition liabilities	177	197	593	1,008
Ending balance	\$10,071	\$ 20,521	\$10,071	\$ 20,521

NOTE 7. INVENTORIES

(In thousands)	September 30, 2018	December 31, 2017
Raw materials	\$ 19,642	\$ 19,984
Work in process	10,268	10,012
Finished goods	94,462	78,413
Total inventories	\$ 124,372	\$ 108,409

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 8. ACCRUED EXPENSES

(In thousands)	September 30, 2018	December 31, 2017
Compensation and other employee-related costs	\$ 27,969	\$ 29,006
Legal and other settlements and expenses	1,350	1,177
Accrued non-income taxes	3,621	6,325
Royalties	2,322	2,139
Other	12,502	13,947
Total accrued expenses	\$ 47,764	\$ 52,594

NOTE 9. DEBT

Line of Credit

In May 2011, we entered into a credit agreement with Wells Fargo Bank related to a revolving credit facility that provides for borrowings up to \$50.0 million. In June 2018, we amended the credit agreement to increase the revolving credit facility amount from \$50.0 million to \$125.0 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 \$150.0 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 2019. 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, 2018, we were in compliance with all financial covenants under the credit agreement, there were no outstanding borrowings under the revolving credit facility and available borrowings were \$125.0 million. We may terminate the credit agreement at any time on ten days' notice without premium or penalty.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 10. EQUITY

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

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

(Shares)	Class A Common	Class B Common	Class C Common	Total
September 30, 2018	76,020,034	22,430,097	—	98,450,131
December 31, 2017	72,780,325	23,877,556	—	96,657,881

The following table summarizes changes in total equity:

(In thousands)	Nine Months Ended September 30, 2018
Total equity, beginning of period	\$ 967,778
Net income	119,724
Stock-based compensation cost	17,291
Exercise of stock options	36,245
Other comprehensive income	79
Total equity, end of period	\$ 1,141,117

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
Nine Months 2018			
Accumulated other comprehensive loss, net of tax, at December 31, 2017	\$ (313)	\$ (6,594)	\$ (6,907)
Other comprehensive (loss)/income before reclassifications	42	50	92
Amounts reclassified from accumulated other comprehensive income, net of tax	(13)	—	(13)
Other comprehensive (loss)/income, net of tax	29	50	79
Accumulated other comprehensive loss, net of tax, at September 30, 2018	\$ (284)	\$ (6,544)	\$ (6,828)

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(In thousands)	Unrealized gain/(loss) on marketable securities, net of tax	Foreign currency translation adjustments	Accumulated other comprehensive loss
Nine Months 2017			
Accumulated other comprehensive loss, net of tax, at December 31, 2016	\$ (167)	\$ (8,475)	\$ (8,642)
Other comprehensive income before reclassifications	152	2,314	2,466
Amounts reclassified from accumulated other comprehensive income, net of tax	(2)	—	(2)
Other comprehensive income, net of tax	150	2,314	2,464
Accumulated other comprehensive loss, net of tax, at September 30, 2017	\$ (17)	\$ (6,161)	\$ (6,178)

NOTE 11. STOCK-BASED COMPENSATION

We have three stock plans: our Amended and Restated 2003 Stock Plan, our 2008 Stock Plan, and our 2012 Equity Incentive Plan (the “2012 Plan”). The 2012 Plan is the only remaining active stock plan. The purpose of these stock plans 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, 2018, pursuant to the 2012 Plan, there were 14,889,882 shares of Class A Common stock reserved and 3,151,814 shares of Class A Common stock available for future grants.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average grant date fair value per share	\$ 15.87	\$ 9.66	\$ 14.81	\$ 8.81

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Stock option activity during the nine months ended September 30, 2018 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, 2017	9,041	\$ 23.40		
Granted	2,781	47.25		
Exercised	(1,792)	20.45		
Forfeited	(361)	29.90		
Outstanding at September 30, 2018	9,669	\$ 30.57	8.2	\$ 253,218
Exercisable at September 30, 2018	4,013	\$ 22.41	6.7	\$ 137,832
Expected to vest at September 30, 2018	5,656	\$ 36.36	9.2	\$ 115,386

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Intrinsic value of stock options exercised	\$7,565	\$ 1,264	\$55,719	\$ 6,024
Stock-based compensation expense	\$5,545	\$ 3,596	\$17,078	\$ 10,659
Net stock-based compensation capitalized into inventory	86	50	213	148
Total stock-based compensation cost	\$5,631	\$ 3,646	\$17,291	\$ 10,807

As of September 30, 2018, there was \$55.2 million of unrecognized compensation expense related to unvested employee stock options that are expected to vest over a weighted average period of three years.

NOTE 12. INCOME TAXES

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

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Effective income tax rate	17.3%	31.5%	15.1%	30.5%

The period over period change in the effective income tax rate for the three and nine months ended September 30, 2018 is primarily driven by the reduction of the federal income tax rate from 35% to 21% as well as benefits from the adoption of ASU 2016-09, which are offset by the repeal of the domestic production activities deduction as part of the U.S. Tax Cuts and Jobs Act ("Tax Reform Act").

The Company recognized the income tax effects of the Tax Reform Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118. As of September 30, 2018 no changes have been made to the previously recognized amounts.

NOTE 13. COMMITMENTS AND CONTINGENCIES

We are involved in a number of proceedings, legal actions, and claims. Such matters are subject to many uncertainties, and the outcomes of these matters are not within our control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions prohibiting us from engaging in certain activities, which, if granted, could require significant expenditures and/or result in lost revenues. We record a liability in the condensed 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 reasonably 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.

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 pre-trial phase of litigation on the underlying damages claims. We intend to defend our rights vigorously. The outcome of this litigation cannot be determined, nor can we estimate a range of potential loss.

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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. 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 September 13, 2017, we settled this matter with Bianco for \$11.5 million in cash, which resulted in the reversal of a previously recorded accrual of \$2.5 million and the recording of \$9.0 million in other assets that will be amortized through June 30, 2022, as a component of cost of goods sold.

Flexuspine, Inc. Litigation

On March 11, 2015, Flexuspine, Inc. filed suit against us in the U.S. District Court for the Eastern District of Texas for patent infringement. Flexuspine, Inc. alleged that Globus willfully infringed one or more claims of five patents by making, using, offering for sale or selling the CALIBER®, CALIBER®-L, and ALTERA® products. On August 19, 2016, a jury returned a verdict in our favor finding no infringement of the asserted patents. On January 19, 2018 the United States Court of Appeals for the Federal Circuit affirmed the decisions of the lower court. On February 19, 2018, Flexuspine, Inc. filed a petition for panel rehearing in the United States Court of Appeals for the Federal Circuit. On March 7, 2018, the United States Court of Appeals for the Federal Circuit denied Flexuspine Inc.'s petition for panel rehearing.

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

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 operating segment. Segment information is consistent with how management reviews the business, makes investing and resource allocation decisions and assesses operating performance.

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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
United States	\$ 139,097	\$ 125,933	\$ 429,823	\$ 381,870
International	30,139	25,811	87,208	78,073
Total sales	\$ 169,236	\$ 151,744	\$ 517,031	\$ 459,943

GLOBUS MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 15. SUBSEQUENT EVENTS

On November 7, 2018, the Alphatec Borrowers repaid all of the then outstanding principal and interest under the Credit Agreement in a total amount of \$29.3 million.

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

The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited interim condensed consolidated financial statements and related notes included elsewhere in this report. Unless otherwise noted, the figures in the following discussions are unaudited.

Overview

Globus Medical, Inc. ("Globus," "we," "us" or "our") is a medical device company that develops and commercializes solutions for the treatment of musculoskeletal disorders. Today we are primarily focused on implants that promote healing in patients with spinal disorders. In 2017, we launched ExcelsiusGPS®, a revolutionary robotic guidance and navigation system that supports minimally invasive and open orthopedic and neurosurgical procedures, with screw placement applications in spine and orthopedic surgery. We completed our first sale of ExcelsiusGPS® in the fourth quarter of 2017. Also in the fourth quarter of 2017, we launched our first products for the treatment of patients who have experienced orthopedic trauma.

We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures to assist surgeons in effectively treating their patients and address new treatment options. Since our inception in 2003, we have launched over 190 products and offer a comprehensive portfolio of innovative and differentiated products addressing a broad array of musculoskeletal pathologies, anatomies and surgical approaches. All of our current products fall into one of two categories: Spine products and Emerging Technology products. Our Spine products are comprised of our entire spinal implant portfolio, including traditional interbody fusion devices, our expandable cages, products designed for minimally invasive surgical techniques, motion preservation devices, regenerative biologics technologies and interventional pain management solutions. Our Emerging Technology products consists of our imaging, navigational and robotic ("INR") technologies and orthopedic trauma products.

While we group our products into the aforementioned categories, our products are not limited to a particular technology, platform or surgical approach. Instead, our goal is to offer surgeons a complete suite of products they can use to most effectively treat their patients, based on the patient's specific anatomy and condition and the surgeon's particular training and surgical preference.

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

During the nine months ended September 30, 2018, our international sales accounted for approximately 17% of our total sales. We have sold our products in 51 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.

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Results of Operations

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

Sales

The following table sets forth, for the periods indicated, our sales by 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, 2018	September 30, 2017	\$	%
United States	\$139,097	\$125,933	\$13,164	10.5%
International	30,139	25,811	4,328	16.8%
Total sales	\$169,236	\$151,744	\$17,492	11.5%

In the United States, the increase in sales of \$13.2 million was due primarily to increased spine product sales due to penetration in existing territories, INR product sales, and associated implant and robotic instrument sales.

Internationally, the increase in sales of \$4.3 million was due primarily to INR product and associated robotic instrument sales and increased sales to Japan. On a constant currency basis, our international sales grew \$4.8 million, or by 18.5%, and our worldwide sales increased 11.8%.

Cost of Goods Sold

	Three Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Cost of goods sold	\$37,849	\$36,798	\$1,051	2.9%
Percentage of sales	22.4%	24.3%		

The \$1.1 million net increase in cost of goods sold was primarily due to higher volumes and was partially offset by the impact from the change in accounting estimate for the depreciable lives of our instruments and cases.

Research and Development Expenses

	Three Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Research and development	\$15,527	\$10,887	\$4,640	42.6%
Percentage of sales	9.2%	7.2%		

The increase in research and development expenses was due primarily to an increase in employee compensation costs from additional headcount, including our INR technology group, increased supplies for furthering research activities and developing new innovative products, and an increase of \$1.8 million from one-time technology licensing fees.

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Selling, General and Administrative Expenses

	Three Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Selling, general and administrative	\$75,131	\$ 63,362	\$11,769	18.6%
Percentage of sales	44.4	% 41.8		%

The increase in selling, general and administrative expenses was primarily due to an increase of \$9.1 million in selling and marketing expenses relating to continued build out of the INR technology and orthopedic trauma sales forces as well as increases in the U.S. and Japanese sales forces to further penetrate those markets.

Provision for Litigation

	Three Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Provision for litigation	\$—	\$ 2,537	\$(2,537)	(100.0)%
Percentage of sales	—%	1.7		%

The decrease in the provision for litigation, which includes settlement and verdict costs, was due to the timing and amount of settlements between the two periods.

Amortization of Intangibles

	Three Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Amortization of intangibles	\$2,160	\$ 2,080	\$80	3.8%
Percentage of sales	1.3	% 1.4		%

Amortization of intangibles remained consistent for the three-months ended September 30, 2018 as compared to the three-months ended September 30, 2017.

Acquisition Related Costs

	Three Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Acquisition related costs	\$268	\$ 285	\$(17)	(6.0)%
Percentage of sales	0.2	% 0.2		%

Acquisition related costs remained consistent for the three-months ended September 30, 2018 as compared to the three-months ended September 30, 2017.

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Other Income, Net

	Three Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Other income, net	\$4,296	\$ 1,562	\$2,734	175.0%
Percentage of sales	2.5	% 1.0	%	

The increase in other income, net, was due primarily to the increase in interest income from marketable securities and the Alphatec Credit Agreement of \$1.9 million during the three-months ended September 30, 2018.

Income Tax Provision

	Three Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Income tax provision	\$7,389	\$ 11,766	\$(4,377)	(37.2)%
Effective income tax rate	17.3	% 31.5	%	

The change in the effective income tax rate between the current year and prior year periods is primarily driven by the impact of the Tax Reform Act as further described in “Part I; Item 1. Financial Statements and Supplementary Data; Notes to Condensed Consolidated Financial Statements; Note 12. Income Taxes.” and stock option exercise benefit.

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Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Sales

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

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
United States	\$429,823	\$ 381,870	\$47,953	12.6 %
International	87,208	78,073	9,135	11.7 %
Total sales	\$517,031	\$ 459,943	\$57,088	12.4 %

In the United States, the increase in sales of \$48.0 million was due primarily to Emerging Technology product sales of \$30.1 million and associated implant and robotic instrument sales.

Internationally, the increase in sales of \$9.1 million was due primarily to increased sales in Japan and Europe, which was partially offset by unfavorable currency fluctuations. On a constant currency basis, our international sales grew \$7.1 million, or by 9.1%, and our worldwide sales increased 12.0%.

Cost of Goods Sold

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Cost of goods sold	\$113,456	\$ 109,597	\$3,859	3.5 %
Percentage of sales	21.9 %	23.8 %		

The \$3.9 million net increase in cost of goods sold was primarily due to higher volumes and was partially offset by the impact from the change in accounting estimate for the depreciable lives of our instruments and cases of \$4.0 million.

Research and Development Expenses

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Research and development	\$41,738	\$ 32,266	\$9,472	29.4 %
Percentage of sales	8.1 %	7.0 %		

The increase in research and development expenses was due primarily to an increase of \$7.1 million from employee compensation costs as a result from additional headcount, including in our INR technology and orthopedic trauma groups, and increased supplies for furthering research activities and developing new innovative products.

Additionally, there were one-time technology license fees charged of \$1.8 million during the three months ended September 30, 2018.

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Selling, General and Administrative Expenses

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Selling, general and administrative	\$227,949	\$ 194,859	\$33,090	17 %
Percentage of sales	44.1	% 42.4	%	

The increase in selling, general and administrative expenses was primarily due to an increase of \$24.6 million in selling and marketing expenses relating to continued build out of the INR technology and orthopedic trauma sales forces as well as an increase in the U.S. and Japanese sales forces to further penetrate those markets. Additionally, there were increases in stock based compensation expenses of \$4.2 million.

Provision for Litigation

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Provision for litigation	\$—	\$ 2,780	\$(2,780)	(100.0)%
Percentage of sales	—%	0.6 %	%	

The decrease in the provision for litigation, which includes settlement and verdict costs, was due to the timing and amount of settlements between the two periods.

Amortization of Intangibles

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Amortization of intangibles	\$6,525	\$ 5,671	\$854	15.1 %
Percentage of sales	1.3	% 1.2	%	

Amortization of intangibles remained consistent for the nine-months ended September 30, 2018 as compared to the nine-months ended September 30, 2017.

Acquisition Related Costs

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Acquisition related costs	\$1,289	\$ 1,290	\$(1)	(0.1)%
Percentage of sales	0.2	% 0.3	%	

Acquisition related costs remained consistent for the nine-months ended September 30, 2018 as compared to the nine-months ended September 30, 2017.

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Other Income, Net

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Other income, net	\$14,904	\$ 5,848	\$9,056	154.9%
Percentage of sales	2.9	% 1.3	%	

The increase in other income, net, was due primarily to the gain on sale of assets of \$4.6 million and increases in interest income from marketable securities and the Alphatec Credit Agreement of \$3.6 million.

Income Tax Provision

	Nine Months Ended		Change	
(In thousands, except percentages)	September 30, 2018	September 30, 2017	\$	%
Income tax provision	\$21,254	\$ 36,356	\$(15,102)	(41.5)%
Effective income tax rate	15.1	% 30.5	%	

The change in the effective income tax rate between the current year and prior year periods is primarily driven by the impact of the Tax Reform Act as further described in “Part I; Item 1. Financial Statements and Supplementary Data; Notes to Condensed Consolidated Financial Statements; Note 12. Income Taxes.” and stock option exercise benefit.

Non-GAAP Financial Measures

To supplement our financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), management uses certain non-GAAP financial measures. For example, non-GAAP Adjusted EBITDA, which represents net income before interest income, net and other non-operating expenses, provision for income taxes, depreciation and amortization, stock-based compensation expense, provision for litigation, acquisition related costs/licensing, and net gain from the sale of assets, is useful as an additional measure of operating performance, and particularly as a measure of comparative operating performance from period to period, as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance, and it removes the effect of our capital structure, asset base, income taxes and interest income and expense. Our management also uses non-GAAP Adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections. Provision for litigation represents costs incurred for litigation settlements or unfavorable verdicts when the loss is known or considered probable and the amount can be reasonably estimated, or in the case of a favorable settlement, when income is realized. Acquisition related costs/licensing represents the change in fair value of business-acquisition-related contingent consideration; costs related to integrating recently acquired businesses including but not limited to costs to exit or convert contractual obligations, severance, and information system conversion; and specific costs related to the consummation of the acquisition process such as banker fees, legal fees, and other acquisition-related professional fees, as well as one-time licensing fees. Net gain from sale of assets represents the gain on sale of assets and the offsetting impact of costs incurred through the sale.

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

(In thousands, except percentages)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$35,208	\$ 25,591	\$119,724	\$ 82,972
Interest income, net	(3,852)	(1,738)	(9,114)	(4,746)
Provision for income taxes	7,389	11,766	21,254	36,356
Depreciation and amortization	10,461	10,838	29,694	33,773
EBITDA	49,206	46,457	161,558	148,355
Stock-based compensation expense	5,545	3,596	17,078	10,659
Provision for litigation	—	2,537	—	2,780
Acquisition related costs/licensing	2,169	784	3,847	2,838
Net gain from sale of assets	764	—	(3,593)	—
Adjusted EBITDA	\$57,684	\$ 53,374	\$178,890	\$ 164,632

Net income as a percentage of sales	20.8	%	16.9	%	23.2	%	18.0	%
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Adjusted EBITDA as a percentage of sales	34.1	%	35.2	%	34.6	%	35.8	%
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In addition, for the period ended September 30, 2018 and for other comparative periods, we are presenting non-GAAP net income and non-GAAP Diluted Earnings Per Share, which represents net income and diluted earnings per share excluding the provision for litigation, amortization of intangibles, acquisition related costs/licensing, net gain from the sale of assets, and adjusted for the tax effects of such adjustments. The tax impact of these non-GAAP adjustments is calculated based on the consolidated effective tax rate on a GAAP basis, applied to the non-GAAP adjustments, unless the underlying item has a materially different tax treatment, in which case the estimated tax rate applicable to the adjustment is used.

We believe these non-GAAP measures are also useful indicators of our operating performance, and particularly as additional measures of comparative operating performance from period to period as they remove the effects of litigation, amortization of intangibles, acquisition related costs/licensing, and the tax effects of such adjustments, which we believe is not reflective of underlying business trends.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$35,208	\$ 25,591	\$119,724	\$ 82,972
Provision for litigation	—	2,537	—	2,780
Amortization of intangibles	2,160	2,080	6,525	5,671
Acquisition related costs/licensing	2,169	784	3,847	2,838
Net gain from sale of assets	764	—	(3,593)	—
Tax effect of adjusting items	(884)	(1,677)	(1,248)	(3,443)
Non-GAAP net income	\$39,417	\$ 29,315	\$125,255	\$ 90,818

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

(Per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Diluted earnings per share, as reported	\$0.35	\$ 0.26	\$1.18	\$ 0.85
Provision for litigation	—	0.03	—	0.03
Amortization of intangibles	0.02	0.02	0.06	0.06
Acquisition related costs/licensing	0.02	0.01	0.04	0.03
Net gain from sale of assets	0.01	—	(0.04)	—
Tax effect of adjusting items	(0.01)	(0.02)	(0.01)	(0.04)
Non-GAAP diluted earnings per share	\$0.39	\$ 0.30	\$1.24	\$ 0.93

* amounts might not add due to rounding

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

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net cash provided by operating activities	\$51,788	\$ 34,795	\$137,352	\$ 114,221
Adjustment for impact of restricted cash	—	—	—	—
Purchases of property and equipment	(15,371)	(12,817)	(42,538)	(37,878)
Free cash flow	\$36,417	\$ 21,978	\$94,814	\$ 76,343

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

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

(In thousands, except percentages)	Three Months Ended		Reported Sales Growth		Currency	
	September 30, 2018	September 30, 2017			Impact on Current Period Sales	Constant Currency Sales Growth
United States	\$139,097	\$125,933	10.5 %	—	—	10.5 %
International	30,139	25,811	16.8 %	\$ (436)		18.5 %
Total sales	\$169,236	\$151,744	11.5 %	\$ (436)		11.8 %
(In thousands, except percentages)	Nine Months Ended		Reported Sales Growth		Currency	
	September 30, 2018	September 30, 2017			Impact on Current Period Sales	Constant Currency Sales Growth
United States	\$429,823	\$381,870	12.6 %	—	—	12.6 %
International	87,208	78,073	11.7 %	\$ 2,061		9.1 %
Total sales	\$517,031	\$459,943	12.4 %	\$ 2,061		12.0 %

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

Cash Flows

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

(In thousands)	Nine Months Ended		Change
	September 30, 2018	September 30, 2017	
Net cash provided by operating activities	\$137,352	\$114,221	\$23,131
Net cash used in investing activities	(140,410)	(93,909)	(46,501)
Net cash provided by financing activities	29,732	1,709	28,023
Effect of foreign exchange rate changes on cash	(196)	778	(974)
Increase in cash, cash equivalents, and restricted cash	\$26,478	\$22,799	\$3,679

Cash Provided by Operating Activities

The increase in net cash provided by operating activities was primarily due to increased operational

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cash flows in 2018 related to timing of spending and cash receipts.

Cash Used in Investing Activities

The increase in net cash used in investing activities was due primarily to the increase in net marketable security investment, which was partially offset by proceeds from sale of assets.

Cash Provided by Financing Activities

The increase in cash provided by financing activities was the result of the increase in proceeds from option exercises partially offset by current period contingent consideration payment.

Liquidity and Capital Resources

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

(In thousands)	September 30, December 31,	
	2018	2017
Cash and cash equivalents	\$ 145,295	\$ 118,817
Short-term marketable securities	227,466	254,890
Long-term marketable securities	168,850	56,133
Total cash, cash equivalents and marketable securities	\$ 541,611	\$ 429,840

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. In June 2018, we amended the credit agreement to increase the revolving credit facility amount from \$50.0 million to \$125.0 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 \$150.0 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 2019. 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, 2018, we were in compliance with all financial covenants under the credit agreement, there were no outstanding borrowings under the revolving credit facility and available borrowings were \$125.0 million. We may terminate the credit agreement at any time on ten days' notice without premium or penalty.

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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, 2018. We believe these sources will provide sufficient liquidity for us to meet our liquidity requirements for the foreseeable future. Our principal liquidity requirements are to meet our working capital, research and development, including clinical trials, capital expenditure needs, principally for our surgical sets required to maintain and expand our business, and potential future business or intellectual property acquisitions. We expect to continue to make investments in surgical sets as we launch new products, increase the size of our U.S. sales force, and expand into international markets. We may, however, require additional liquidity as we continue to execute our business strategy. Our liquidity may be negatively impacted as a result of a decline in sales of our products, including declines due to changes in our customers' ability to obtain third-party coverage and reimbursement for procedures that use our products; increased pricing pressures resulting from intensifying competition, cost increases and slower product development cycles resulting from a changing regulatory environment; and unfavorable results from litigation which will affect our cash flow. We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of other indebtedness, additional equity financings or a combination of these potential sources of liquidity. The sale of additional equity may result in dilution to our stockholders. There is no assurance that we will be able to secure such additional funding on terms acceptable to us, or at all.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Seasonality and Backlog

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

Recently Issued Accounting Pronouncements

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

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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, 2017 (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.

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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, 2018. 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, 2018, our CEO and CFO concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the nine months ended September 30, 2018 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in a number of proceedings, legal actions and claims. Such matters are subject to many uncertainties, and the outcomes of these matters are not within our control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions prohibiting us from engaging in certain activities, which, if granted, could require significant expenditures and/or result in lost revenues. For further details on the material legal proceedings to which we are currently a party, please refer to “Part I; Item 1. Financial Statements; Notes to Condensed Consolidated Financial Statements; Note 13. Commitments and Contingencies” above.

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

Item 1A. Risk Factors

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. For a discussion of the specific risks that could materially adversely affect our business, financial condition or operation results, please see our Form 10-K under the heading “Part I; Item 1A. Risk Factors.”

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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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*	<u>Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32**	<u>Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

** Furnished herewith.

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SIGNATURES

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

GLOBUS MEDICAL, INC.

Dated: November 8, 2018 /s/ DAVID M. DEMSKI

David M. Demski
Chief Executive Officer
(Principal Executive Officer)

Dated: November 8, 2018 /s/ DANIEL T. SCAVILLA

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