

**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 June 30, 2015**

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 001-35621

GLOBUS MEDICAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

04-3744954

(I.R.S. Employer Identification No.)

2560 General Armistead Avenue, Audubon, PA 19403

(Address of principal executive offices) (Zip Code)

(610) 930-1800

(Registrant's telephone number, including Area Code)

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

Yes No

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

Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer (Do not check if a smaller reporting company)

Smaller Reporting Company

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

Yes No

The number of shares outstanding of the issuer's common stock (par value \$0.001 per share) as of July 24, 2015 was 95,080,789 shares.

[Table of Contents](#)

**GLOBUS MEDICAL, INC. AND SUBSIDIARIES
TABLE OF CONTENTS**

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets	
June 30, 2015 (Unaudited) and December 31, 2014	3
Consolidated Statements of Income (Unaudited)	
Three and six months ended June 30, 2015 and June 30, 2014	4
Consolidated Statements of Comprehensive Income (Unaudited)	
Three and six months ended June 30, 2015 and June 30, 2014	5
Consolidated Statements of Cash Flows (Unaudited)	
Six months ended June 30, 2015 and June 30, 2014	6
Notes to Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	32
Item 4. Controls and Procedures	32
PART II. OTHER INFORMATION	33
Item 1. Legal Proceedings	33
Item 1A. Risk Factors	33
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3. Defaults Upon Senior Securities	33
Item 4. Mine Safety Disclosures	33
Item 5. Other Information	33
Item 6. Exhibits	34
SIGNATURES	35
Exhibit Index	36

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****GLOBUS MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except par value)</i>	June 30, 2015	December 31, 2014
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,559	\$ 82,265
Restricted cash	24,682	23,370
Short-term marketable securities	158,247	146,439
Accounts receivable, net of allowances of \$2,211 and \$1,647, respectively	73,045	75,430
Inventories	101,046	90,945
Prepaid expenses and other current assets	6,811	5,742
Income taxes receivable	6,921	5,772
Deferred income taxes	42,445	40,062
Total current assets	454,756	470,025
Property and equipment, net of accumulated depreciation of \$129,105 and \$118,544, respectively	99,913	69,475
Long-term marketable securities	81,380	75,347
Intangible assets, net	33,951	34,529
Goodwill	93,561	53,196
Other assets	1,102	975
Total assets	\$ 764,663	\$ 703,547
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 18,326	\$ 15,904
Accounts payable to related-party	—	5,359
Accrued expenses	60,507	61,499
Income taxes payable	601	569
Business acquisition liabilities, current	12,299	6,081
Total current liabilities	91,733	89,412
Business acquisition liabilities, net of current portion	20,625	20,195
Deferred income taxes	5,787	5,166
Other liabilities	3,393	3,320
Total liabilities	121,538	118,093
Commitments and contingencies (Note 12)		
Equity:		
Class A common stock; \$0.001 par value. Authorized 500,000 shares; issued and outstanding 71,189 and 70,828 shares at June 30, 2015 and December 31, 2014, respectively	71	71
Class B common stock; \$0.001 par value. Authorized 275,000 shares; issued and outstanding 23,878 at June 30, 2015 and December 31, 2014, respectively	24	24
Additional paid-in capital	184,243	175,242
Accumulated other comprehensive loss	(1,689)	(1,657)
Retained earnings	460,476	411,774
Total equity	643,125	585,454
Total liabilities and equity	\$ 764,663	\$ 703,547

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
<i>(In thousands, except per share amounts)</i>				
Sales	\$ 133,570	\$ 113,573	\$ 265,174	\$ 227,783
Cost of goods sold	32,579	26,583	64,686	51,895
Gross profit	100,991	86,990	200,488	175,888
 Operating expenses:				
Research and development	9,081	7,694	17,737	15,137
Selling, general and administrative	54,506	46,425	106,795	93,103
Provision for litigation	374	1,318	406	3,853
Total operating expenses	63,961	55,437	124,938	112,093
 Operating income	37,030	31,553	75,550	63,795
 Other income, net				
Interest income, net	278	195	556	396
Foreign currency transaction gain/(loss)	13	(27)	(664)	(57)
Other income	150	157	202	231
Total other income, net	441	325	94	570
 Income before income taxes	37,471	31,878	75,644	64,365
Income tax provision	13,417	11,231	26,942	22,579
 Net income	\$ 24,054	\$ 20,647	\$ 48,702	\$ 41,786
 Earnings per share:				
Basic	\$ 0.25	\$ 0.22	\$ 0.51	\$ 0.44
Diluted	\$ 0.25	\$ 0.22	\$ 0.51	\$ 0.44
 Weighted average shares outstanding:				
Basic	94,979	94,212	94,884	93,965
Dilutive stock options	1,070	1,268	1,093	1,363
Diluted	96,049	95,480	95,977	95,328
 Anti-dilutive stock equivalents excluded from weighted average calculation	3,398	1,370	3,059	1,302

See accompanying notes to consolidated financial statements.

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

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income	\$ 24,054	\$ 20,647	\$ 48,702	\$ 41,786
Other comprehensive income/(loss):				
Unrealized gain/(loss) on marketable securities, net of tax	(37)	9	28	10
Foreign currency translation gain/(loss)	183	135	(60)	132
Total other comprehensive income/(loss)	146	144	(32)	142
Comprehensive income	\$ 24,200	\$ 20,791	\$ 48,670	\$ 41,928

See accompanying notes to consolidated financial statements.

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

(In thousands)	Six Months Ended	
	June 30, 2015	June 30, 2014
Cash flows from operating activities:		
Net income	\$ 48,702	\$ 41,786
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,579	10,684
Amortization of premium on marketable securities	1,370	1,566
Write-down for excess and obsolete inventories	4,730	3,535
Stock-based compensation	4,669	3,550
Excess tax benefit related to nonqualified stock options	(1,317)	(3,841)
Allowance for doubtful accounts	717	112
Change in deferred income taxes	(5,047)	(4,231)
(Increase)/decrease in:		
Restricted cash	(1,312)	—
Accounts receivable	1,591	(2,491)
Inventories	(11,651)	(9,494)
Prepaid expenses and other assets	(897)	(384)
Increase/(decrease) in:		
Accounts payable	(66)	(821)
Accounts payable to related-party	(5,359)	1,503
Accrued expenses and other liabilities	(65)	385
Income taxes payable/receivable	187	(277)
Net cash provided by operating activities	47,831	41,582
Cash flows from investing activities:		
Purchases of marketable securities	(143,691)	(105,015)
Maturities of marketable securities	85,444	95,292
Sales of marketable securities	39,085	17,155
Purchases of property and equipment	(25,126)	(12,231)
Acquisition of businesses, net of cash acquired	(48,016)	—
Net cash used in investing activities	(92,304)	(4,799)
Cash flows from financing activities:		
Payment of business acquisition liabilities	(600)	(600)
Proceeds from exercise of stock options	3,015	6,631
Excess tax benefit related to nonqualified stock options	1,317	3,841
Net cash provided by financing activities	3,732	9,872
Effect of foreign exchange rate on cash	35	(117)
Net increase/(decrease) in cash and cash equivalents	(40,706)	46,538
Cash and cash equivalents, beginning of period	82,265	89,962
Cash and cash equivalents, end of period	\$ 41,559	\$ 136,500
Supplemental disclosures of cash flow information:		
Interest paid	9	25
Income taxes paid	\$ 31,880	\$ 27,122

See accompanying notes to consolidated financial statements.

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

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company

Globus Medical, Inc., together with its subsidiaries, is a medical device company focused on the design, development and commercialization of musculoskeletal implants. We are currently focused on implants that promote healing in patients with spine disorders. We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures that assist surgeons in effectively treating their patients, respond to evolving surgeon needs and address new treatment options. Since our inception in 2003, we have launched over 140 products and offer a product portfolio addressing a broad array of spinal pathologies.

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

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

(b) Basis of Presentation

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

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

(c) Principles of Consolidation

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

(d) Use of Estimates

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

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

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

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

(e) Restricted Cash

In December 2014, we set aside cash for the payment of a portion of the Synthes and Bianco litigations. We classified this cash as restricted, as the amount was placed in escrow to be used for payment of the litigation obligations, should we not be successful with our appeals. As of June 30, 2015, we have \$24.7 million of restricted cash related to these matters. See "**Note 12. Commitments and Contingencies**" below for more details regarding these litigations.

(f) Marketable Securities

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

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

(g) Inventories

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

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

(h) Revenue Recognition

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

NOTE 2. ACQUISITIONS

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

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

We accounted for the acquisition under the purchase method of accounting, and as a result, recorded preliminary goodwill of \$40.6 million. The results of operations of BMG have been included in our results of operations from the date of acquisition. Amounts recognized for assets acquired and liabilities assumed are based on preliminary purchase price allocations and on certain management judgments. These preliminary allocations are based on an analysis of the estimated fair values of assets acquired and liabilities assumed, including identifiable tangible assets, and estimates of the useful lives of tangible assets. The final purchase price allocations will be completed after we finalize our third-party appraisal, review all available data, and complete our own internal assessments. We expect to complete our final purchase price allocations by the end of September 2015. Any additional adjustments resulting from finalization of the purchase price allocations for BMG will affect the amount assigned to goodwill. The goodwill from this acquisition is not deductible for tax purposes.

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

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

(In thousands)

Consideration:	
Cash paid at closing	\$ 57,042
Deferred consideration	5,290
Estimated closing adjustments payable	944
Fair value of consideration	<u><u>\$ 63,276</u></u>
Identifiable assets acquired and liabilities assumed:	
Cash acquired	\$ 9,026
Accounts receivable	88
Inventory	3,156
Other assets	444
Property and equipment	14,862
Accounts payable and accrued expenses	(1,585)
Deferred tax liability, net	(3,280)
Total identifiable net assets	<u><u>22,711</u></u>
Goodwill	40,565
Total allocated purchase price	<u><u>\$ 63,276</u></u>

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

<i>(pro forma, in thousands, except per share amounts)</i>	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net sales	\$ 133,570	\$ 113,946	\$ 265,272	\$ 228,260
Net income	24,210	20,681	48,818	41,786
 Earnings per share:				
Basic	\$ 0.25	\$ 0.22	\$ 0.51	\$ 0.44
Diluted	\$ 0.25	\$ 0.22	\$ 0.51	\$ 0.44

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

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

NOTE 3. INTANGIBLE ASSETS

A summary of intangible assets is presented below:

(In thousands)	Weighted Average Amortization Period (in years)	June 30, 2015		
		Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
In-process research & development	—	\$ 24,560	\$ —	\$ 24,560
Supplier network	10.0	4,000	(267)	3,733
Customer relationships & other intangibles	7.3	5,525	(1,872)	3,653
Patents	17.0	2,420	(415)	2,005
Total intangible assets		\$ 36,505	\$ (2,554)	\$ 33,951

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

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

NOTE 4. MARKETABLE SECURITIES

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

(In thousands)	Contractual Maturity (in years)	June 30, 2015			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	\$ 62,474	\$ 13	\$ (27)	\$ 62,460
Corporate debt securities	Less than 1	63,629	10	(20)	63,619
Commercial paper	Less than 1	28,378	6	—	28,384
Securities of U.S. government-sponsored agencies	Less than 1	2,999	3	—	3,002
Asset-backed securities	Less than 1	782	—	—	782
Total short-term marketable securities		\$ 158,262	\$ 32	\$ (47)	\$ 158,247
Long-term:					
Municipal bonds	1-2	\$ 40,169	\$ 3	\$ (57)	\$ 40,115
Corporate debt securities	1-2	11,579	7	—	11,586
Asset-backed securities	1-2	25,649	3	(4)	25,648
Securities of U.S. government-sponsored agencies	1-2	4,026	5	—	4,031
Total long-term marketable securities		\$ 81,423	\$ 18	\$ (61)	\$ 81,380
December 31, 2014					
(In thousands)	Contractual Maturity (in years)	December 31, 2014			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term:					
Municipal bonds	Less than 1	\$ 28,684	\$ 2	\$ (3)	\$ 28,683
Corporate debt securities	Less than 1	73,066	7	(42)	73,031
Commercial paper	Less than 1	44,663	8	—	44,671
Asset-backed securities	Less than 1	54	—	—	54
Total short-term marketable securities		\$ 146,467	\$ 17	\$ (45)	\$ 146,439
Long-term:					
Municipal bonds	1-2	\$ 26,005	\$ 3	\$ (36)	\$ 25,972
Corporate debt securities	1-2	19,617	3	(22)	19,598
Asset-backed securities	1-2	21,236	1	(8)	21,229
Securities of U.S. government-sponsored agencies	1-2	8,564	—	(16)	8,548
Total long-term marketable securities		\$ 75,422	\$ 7	\$ (82)	\$ 75,347

NOTE 5. FAIR VALUE MEASUREMENTS

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

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

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				
	June 30, 2015	Level 1	Level 2	Level 3	
Assets					
Cash equivalents					
Cash equivalents	\$ 22,245	\$ 13,647	\$ 8,598	\$ —	—
Municipal bonds	102,575	—	102,575	—	—
Corporate debt securities	75,205	—	75,205	—	—
Commercial paper	28,384	—	28,384	—	—
Asset-backed securities	26,430	—	26,430	—	—
Securities of U.S. government-sponsored agencies	7,033	—	7,033	—	—
Liabilities					
Contingent consideration	25,543	—	—	—	25,543

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

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

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

NOTE 6. INVENTORIES

<i>(In thousands)</i>	June 30, 2015	December 31, 2014
Raw materials	\$ 9,889	\$ 8,847
Work in process	6,067	2,490
Finished goods	85,090	79,608
Total inventories	\$ 101,046	\$ 90,945

NOTE 7. ACCRUED EXPENSES

<i>(In thousands)</i>	June 30, 2015	December 31, 2014
Compensation and other employee-related costs	\$ 16,680	\$ 19,933
Legal and other settlements and expenses	27,165	27,686
Accrued non-income taxes	5,699	4,720
Royalties	5,499	3,872
Other	5,464	5,288
Total accrued expenses	\$ 60,507	\$ 61,499

NOTE 8. DEBT

Line of Credit

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

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

NOTE 9. EQUITY

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

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

(Shares)	Class A Common	Class B Common	Total
June 30, 2015	71,188,596	23,877,556	95,066,152
December 31, 2014	70,828,187	23,877,556	94,705,743

The following table summarizes changes in total equity:

(In thousands)	Six Months Ended June 30, 2015	
Total equity, beginning of period	\$	585,454
Net income		48,702
Stock-based compensation		4,669
Exercise of stock options		3,015
Excess tax benefit of nonqualified stock options		1,317
Other comprehensive loss		(32)
Total equity, end of period	\$	<u>643,125</u>

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

(In thousands)	Unrealized gain/(loss) on marketable securities, net of tax	Foreign currency translation adjustments	Accumulated other comprehensive loss
Accumulated other comprehensive loss, net of tax, at December 31, 2014	\$ (64)	\$ (1,593)	\$ (1,657)
Other comprehensive income/(loss) before reclassifications	26	(60)	(34)
Amounts reclassified from accumulated other comprehensive income, net of tax	2	—	2
Other comprehensive income/(loss), net of tax	28	(60)	(32)
Accumulated other comprehensive loss, net of tax, at June 30, 2015	<u>\$ (36)</u>	<u>\$ (1,653)</u>	<u>\$ (1,689)</u>

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

(In thousands)	Unrealized gain/(loss) on marketable securities, net of tax	Foreign currency translation adjustments	Accumulated other comprehensive loss
Accumulated other comprehensive income/(loss), net of tax, at December 31, 2013	\$ 32	\$ (1,041)	\$ (1,009)
Other comprehensive income before reclassifications	4	132	136
Amounts reclassified from accumulated other comprehensive income, net of tax	6	—	6
Other comprehensive income, net of tax	10	132	142
Accumulated other comprehensive income/(loss), net of tax, at June 30, 2014	<u>\$ 42</u>	<u>\$ (909)</u>	<u>\$ (867)</u>

NOTE 10. STOCK-BASED COMPENSATION

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

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

As of June 30, 2015, there were 4,300,930 shares of Class A Common stock available for future grants under the 2012 Plan.

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Weighted average grant date per share fair value	\$ 8.11	\$ 10.01	\$ 8.91	\$ 10.27

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

Stock option activity during the six months ended June 30, 2015 is summarized as follows:

	Option Shares(thousands)	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value (thousands)
Outstanding at December 31, 2014	4,854	\$ 14.50		
Granted	1,889	24.54		
Exercised	(360)	8.37		
Forfeited	(199)	15.10		
Outstanding at June 30, 2015	<u>6,184</u>	<u>\$ 17.90</u>	7.7	\$ 48,072
Exercisable at June 30, 2015	<u>2,614</u>	<u>\$ 11.61</u>	5.8	\$ 36,764
Expected to vest at June 30, 2015	<u>3,570</u>	<u>\$ 22.52</u>	9.1	\$ 11,309

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

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Compensation expense related to stock options	\$ 2,538	\$ 1,623	\$ 4,669	\$ 3,550
Intrinsic value of stock options exercised	2,679	4,614	5,939	15,897

As of June 30, 2015, there was \$27.3 million of unrecognized compensation expense related to unvested employee stock options that are expected to vest over a weighted average period of three years.

NOTE 11. INCOME TAXES

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Effective income tax rate	35.8%	35.2%	35.6%	35.1%

The nominal change in the effective income tax rate between the current year and prior year periods is due primarily to changes in the components of taxable income.

NOTE 12. COMMITMENTS AND CONTINGENCIES

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

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

expenditures and/or result in lost revenues. We record a liability in the consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. While it is not possible to predict the outcome for most of the matters discussed, we believe it is possible that costs associated with them could have a material adverse impact on our consolidated earnings, financial position or cash flows.

N-Spine, Synthes and DePuy Synthes Litigation

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

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

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

In July 2011, Synthes USA, LLC, Synthes USA Products, LLC and Synthes USA Sales, LLC filed suit against us in the U.S. District Court for the District of Delaware for patent infringement. Synthes USA LLC, the patent owner, Synthes USA Products, LLC, a licensee to manufacture products of the subject patents, and Synthes USA Sales LLC, a licensee to sell products of the subject patents, allege that we infringed one or more claims of three patents by making, using, offering for sale or selling our COALITION®, INDEPENDENCE® and INTERCONTINENTAL® products. As a result of the acquisition of Synthes, Inc. by Johnson & Johnson, a motion was filed to change the plaintiff in this matter to DePuy Synthes in February 2013. On June 14, 2013, the jury in this case returned a verdict, finding that prior versions of the three products we previously sold did infringe on DePuy Synthes’ patents and awarding monetary damages in the amount of \$16.0 million. The jury also upheld the validity of DePuy Synthes’ patents. There was no finding of willful infringement by Globus.

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

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

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

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

L5 Litigation

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

NuVasive Litigation

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

NuVasive Employee Litigation

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

Bianco Litigation

On March 21, 2012, Sabatino Bianco filed suit against us in the Federal District Court for the Eastern District of Texas claiming that we misappropriated his trade secret and confidential information and improperly utilized it in developing our CALIBER® product. Bianco alleges that we engaged in misappropriation of trade secrets, breach of contract, unfair competition, fraud and theft and seeks correction of inventorship, injunctive relief and exemplary damages. On April 20, 2012, Bianco filed a motion for a

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

preliminary injunction, seeking to enjoin us from making, using, selling, importing or offering for sale our CALIBER® product. On November 15, 2012, the court denied Bianco's motion for preliminary injunction. On October 1, 2013, Bianco amended his complaint to claim that his trade secrets and confidential information were also used improperly in developing our RISE® and CALIBER-L® products.

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

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

Altus Partners, LLC Litigation

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

Bonutti Skeletal Innovations, LLC Litigation

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

Flexuspine, Inc. Litigation

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

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

range of potential loss. Therefore, in accordance with authoritative guidance on the evaluation of loss contingencies, we have not recorded an accrual related to this litigation.

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

NOTE 13. RELATED-PARTY TRANSACTIONS

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

(In thousands)	Period Ended	Three Months Ended	Six Months Ended
	March 11, 2015	June 30, 2014	June 30, 2014
Purchases from related-party supplier	\$ 5,304	\$ 5,941	\$ 10,791

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

NOTE 14. SEGMENT AND GEOGRAPHIC INFORMATION

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

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
United States	\$ 121,487	\$ 101,631	\$ 241,470	\$ 203,336
International	12,083	11,942	23,704	24,447
Total sales	\$ 133,570	\$ 113,573	\$ 265,174	\$ 227,783

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Innovative Fusion	\$ 71,571	\$ 65,860	\$ 141,941	\$ 132,630
Disruptive Technology	61,999	47,713	123,233	95,153
Total sales	\$ 133,570	\$ 113,573	\$ 265,174	\$ 227,783

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

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

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

Overview

We are a medical device company focused on the design, development and commercialization of musculoskeletal implants. We are currently focused on implants that promote healing in patients with spine disorders. We are an engineering-driven company with a history of rapidly developing and commercializing advanced products and procedures that assist surgeons in effectively treating their patients, respond to evolving surgeon needs and address new treatment options. Since our inception in 2003, we have launched over 140 products and offer a comprehensive product portfolio of innovative and differentiated products addressing a broad array of spinal pathologies, anatomies and surgical approaches.

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

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

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

During the six months ended June 30, 2015, our international sales accounted for approximately 8.9% of our total sales. We sell our products in 33 countries outside the United States through a combination of direct sales representatives employed by us and international distributors. We believe there are significant opportunities for us to increase our presence in both existing and new international markets through the continued expansion of our direct and distributor sales forces and the commercialization of additional products.

On February 25, 2015, we entered into an agreement to acquire Branch Medical Group, Inc. ("BMG"), a related-party manufacturer of high precision medical devices located in Audubon, PA. We closed this

[Table of Contents](#)

acquisition on March 11, 2015, for \$57.0 million in cash, \$5.3 million in deferred consideration, and an estimated \$0.9 million payable upon finalization of closing adjustments.

Results of Operations

Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014

Sales

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

(In thousands, except percentages)	Three Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
Innovative Fusion	\$ 71,571	\$ 65,860	\$ 5,711	8.7%
Disruptive Technology	61,999	47,713	14,286	29.9%
Total sales	<u>\$ 133,570</u>	<u>\$ 113,573</u>	<u>\$ 19,997</u>	<u>17.6%</u>

Product launches continue to be a driving force in our sales growth, particularly from products launched during the last three years. The growth in Disruptive Technology of \$14.3 million was due primarily to sales of biologic, expandable interbody and minimally invasive products launched during the past three years in addition to the sales from Transplant Technologies of Texas, Ltd. (“TTOT”) since the acquisition in late 2014. Innovative Fusion sales increased by \$5.7 million due primarily to strong sales of pedicle screw systems.

(In thousands, except percentages)	Three Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
United States	\$ 121,487	\$ 101,631	\$ 19,856	19.5%
International	12,083	11,942	141	1.2%
Total sales	<u>\$ 133,570</u>	<u>\$ 113,573</u>	<u>\$ 19,997</u>	<u>17.6%</u>

In the United States, the increase in sales of \$19.9 million was due primarily to expansion into new territories and increased penetration in existing territories. We saw strong sales in both Disruptive Technology and Innovative Fusion products, led by sales of pedicle screw systems and our biologic and expandable interbody products.

Internationally, the increase in sales of \$0.1 million was negatively impacted due to changes in foreign currency exchange rates. On a constant currency basis, our international sales grew \$1.8 million, or by 15.4% due to increased penetration in existing international territories and strong sales in our biologic and expandable interbody products. Our worldwide sales increased 19.1% on a constant currency basis,

[Table of Contents](#)

Cost of Goods Sold

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
	\$	\$	\$	%
Cost of goods sold	\$ 32,579	\$ 26,583	\$ 5,996	22.6%
Percentage of sales	24.4%	23.4%		

The increase in cost of goods sold was due primarily to an increase of \$4.7 million from increased sales volume and mix, including costs for TTOT, an increase of \$0.5 million in freight costs, and an increase of \$0.5 million for inventory reserves and write-offs.

Research and Development Expenses

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
	\$	\$	\$	%
Research and development	\$ 9,081	\$ 7,694	\$ 1,387	18.0%
Percentage of sales	6.8%	6.8%		

The increase in research and development expenses was due primarily to an increase of \$1.5 million related to employee compensation from additional headcount for furthering research activities and developing new innovative products.

Selling, General and Administrative Expenses

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
	\$	\$	\$	%
Selling, general and administrative	\$ 54,506	\$ 46,425	\$ 8,081	17.4%
Percentage of sales	40.8%	40.9%		

The increase in selling, general and administrative expenses resulted primarily from an increase of \$4.9 million related to increased compensation costs in the United States, including TTOT and BMG, to support increased sales volume and company growth, and an increase of \$3.2 million in legal expenses, bad debt expense, acquisition-related expenses, and other selling, general and administrative costs.

Provision for Litigation

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
	\$	\$	\$	%
Provision for litigation	\$ 374	\$ 1,318	\$ (944)	(71.6)%
Percentage of sales	0.3%	1.2%		

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

[Table of Contents](#)

Other Income, Net

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
	\$ 441	\$ 325	\$ 116	35.7%
Other income, net	\$ 441	\$ 325	\$ 116	35.7%
Percentage of sales	0.3%	0.3%		

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

Income Tax Provision

<i>(In thousands, except percentages)</i>	Three Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
	\$ 13,417	\$ 11,231	\$ 2,186	19.5%
Income tax provision	\$ 13,417	\$ 11,231	\$ 2,186	19.5%
Effective income tax rate	35.8%	35.2%		

Our tax provision for the three months ended June 30, 2015 was higher than the prior year period due primarily to the changes in the components of pre-tax income.

Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014

Sales

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

<i>(In thousands, except percentages)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
	\$ 141,941	\$ 132,630	\$ 9,311	7.0%
Innovative Fusion	\$ 141,941	\$ 132,630	\$ 9,311	7.0%
Disruptive Technology	123,233	95,153	28,080	29.5%
Total sales	<u>\$ 265,174</u>	<u>\$ 227,783</u>	<u>\$ 37,391</u>	<u>16.4%</u>

Product launches continue to be a driving force in our sales growth, particularly from products launched during the last three years. The growth in Disruptive Technology of \$28.1 million was due primarily to sales of biologic, expandable interbody and minimally invasive products launched during the past three years including the sales from TTOT since the acquisition in late 2014. Innovative Fusion sales increased by \$9.3 million due primarily to strong sales of pedicle screw systems.

<i>(In thousands, except percentages)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
	\$ 241,470	\$ 203,336	\$ 38,134	18.8 %
United States	\$ 241,470	\$ 203,336	\$ 38,134	18.8 %
International	23,704	24,447	(743)	(3.0%)
Total sales	<u>\$ 265,174</u>	<u>\$ 227,783</u>	<u>\$ 37,391</u>	<u>16.4 %</u>

In the United States, the increase in sales of \$38.1 million was due primarily to expansion into new territories and increased penetration in existing territories. We saw strong sales in both Disruptive Technology

[Table of Contents](#)

and Innovative Fusion products, led by sales of pedicle screw systems and our biologic and expandable interbody products.

Internationally, the decrease in sales of \$0.7 million was negatively impacted due to changes in foreign currency exchange rates. On a constant currency basis, our international sales grew \$2.2 million, or by 9.3% due to increased penetration in existing international territories and strong sales in our biologic and expandable interbody products. Our worldwide sales increased 17.8% on a constant currency basis.

Cost of Goods Sold

<i>(In thousands, except percentages)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
Cost of goods sold	\$ 64,686	\$ 51,895	\$ 12,791	24.6%
Percentage of sales	24.4%	22.8%		

The increase in cost of goods sold was due primarily to an increase of \$9.1 million from increased sales volume and mix, including costs for TTOT, an increase of \$1.2 million in freight costs, an increase of \$1.1 million for inventory reserves and write-offs and an increase of \$0.9 million for royalties.

Research and Development Expenses

<i>(In thousands, except percentages)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
Research and development	\$ 17,737	\$ 15,137	\$ 2,600	17.2%
Percentage of sales	6.7%	6.6%		

The increase in research and development expenses was due primarily to an increase of \$2.3 million related to employee compensation from additional headcount for furthering research activities and developing new innovative products.

Selling, General and Administrative Expenses

<i>(In thousands, except percentages)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
Selling, general and administrative	\$ 106,795	\$ 93,103	\$ 13,692	14.7%
Percentage of sales	40.3%	40.9%		

The increase in selling, general and administrative expenses was due primarily to an increase of \$8.8 million related to increased compensation costs in the United States, including TTOT & BMG, to support increased sales volume and company growth, and an increase of \$4.9 million in acquisition-related expenses, meeting and training expenses, legal expenses, bad debt expense and other selling, general and administrative costs.

Provision for Litigation

<i>(In thousands, except percentages)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
Provision for litigation	\$ 406	\$ 3,853	\$ (3,447)	(89.5)%
Percentage of sales	0.2%	1.7%		

[Table of Contents](#)

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

Other Income, Net

<i>(In thousands, except percentages)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
Other income, net	\$ 94	\$ 570	\$ (476)	(83.5)%
Percentage of sales	—%	0.3%		

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

Income Tax Provision

<i>(In thousands, except percentages)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	%
Income tax provision	\$ 26,942	\$ 22,579	\$ 4,363	19.3%
Effective income tax rate	35.6%	35.1%		

Our tax provision for the six months ended June 30, 2015 was higher than the prior year period due primarily to the changes in the components of pre-tax income.

Non-GAAP Financial Measures

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

[Table of Contents](#)

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

<i>(In thousands, except percentages)</i>	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net Income	\$ 24,054	\$ 20,647	\$ 48,702	\$ 41,786
Interest income, net	(278)	(195)	(556)	(396)
Provision for income taxes	13,417	11,231	26,942	22,579
Depreciation and amortization	5,905	5,387	11,579	10,684
EBITDA	43,098	37,070	86,667	74,653
Stock-based compensation	2,538	1,623	4,669	3,550
Provision for litigation	374	1,318	406	3,853
Change in fair value of contingent consideration and other acquisition related costs	730	143	1,314	153
Adjusted EBITDA	<u>\$ 46,740</u>	<u>\$ 40,154</u>	<u>\$ 93,056</u>	<u>\$ 82,209</u>
Adjusted EBITDA as a percentage of sales	<u>35.0%</u>	<u>35.4%</u>	<u>35.1%</u>	<u>36.1%</u>

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

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

<i>(Per share amounts)</i>	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Diluted earnings per share, as reported	\$ 0.25	\$ 0.22	\$ 0.51	\$ 0.44
Provision for litigation (net of taxes)	—	0.01	—	0.02
Non-GAAP diluted earnings per share	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.51</u>	<u>\$ 0.46</u>

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

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net cash provided by operating activities	\$ 13,161	\$ 12,350	\$ 47,831	\$ 41,582
Adjustment for impact of restricted cash	1,312	—	1,312	—
Purchases of property and equipment	(17,898)	(6,067)	(25,126)	(12,231)
Free cash flow	<u>\$ (3,425)</u>	<u>\$ 6,283</u>	<u>\$ 24,017</u>	<u>\$ 29,351</u>

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

[Table of Contents](#)

currency basis 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 on a constant currency basis to sales as computed in accordance with U.S. GAAP for the periods presented.

<i>(In thousands, except percentages)</i>	Three Months Ended		Percent Change	
	June 30, 2015	June 30, 2014	Reported	Constant Currency
United States	\$ 121,487	\$ 101,631	19.5%	19.5%
International	12,083	11,942	1.2%	15.4%
Total sales	<u>\$ 133,570</u>	<u>\$ 113,573</u>	17.6%	19.1%

<i>(In thousands, except percentages)</i>	Six Months Ended		Percent Change	
	June 30, 2015	June 30, 2014	Reported	Constant Currency
United States	\$ 241,470	\$ 203,336	18.8 %	18.8%
International	23,704	24,447	(3.0)%	9.3%
Total sales	<u>\$ 265,174</u>	<u>\$ 227,783</u>	16.4 %	17.8%

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

Cash Flows

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

<i>(In thousands)</i>	Six Months Ended		Change	
	June 30, 2015	June 30, 2014	\$	\$
Net cash provided by operating activities	\$ 47,831	\$ 41,582	\$ 6,249	\$ 6,249
Net cash used in investing activities	(92,304)	(4,799)	(87,505)	(87,505)
Net cash provided by financing activities	3,732	9,872	(6,140)	(6,140)
Effect of foreign exchange rate changes on cash	35	(117)	152	152
Increase/(decrease) in cash and cash equivalents	<u>\$ (40,706)</u>	<u>\$ 46,538</u>	<u>\$ (87,244)</u>	<u>\$ (87,244)</u>

During the six months ended June 30, 2015, our cash and cash equivalents decreased due primarily to the acquisition of BMG for \$48.0 million, net of cash acquired.

Cash Provided by Operating Activities

The increase in net cash provided by operating activities of \$6.2 million was due primarily to the \$4.1 million increase in the change in accounts receivable and the \$6.9 million increase in net income, which were partially offset by the \$6.1 million net decrease in the change in accounts payable and accounts payable to related parties and the \$4.8 million increase in income tax payments over the prior year period.

Cash Used in Investing Activities

The increase in net cash used in investing activities of \$87.5 million was due primarily to the \$48.0 million used for the BMG acquisition and the \$26.6 million increase in the amount of cash invested in marketable securities in the six-month period ended June 30, 2015 compared to the prior period. During the six-month period ended June 30, 2015, we had a net outflow of \$19.2 million of cash from purchases exceeding maturities and sales, whereas in the corresponding period in 2014, we had a net cash inflow of \$7.4 million as maturities and sales exceeded purchases of marketable securities.

Cash Provided by Financing Activities

The decrease in cash provided by financing activities of \$6.1 million was due primarily to the decrease in the proceeds from the exercise of stock options of \$3.6 million, along with the decrease in the related excess tax benefit of \$2.5 million.

Liquidity and Capital Resources

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

<i>(In thousands)</i>	June 30, 2015	December 31, 2014
Cash and cash equivalents	\$ 41,559	\$ 82,265
Short-term marketable securities	158,247	146,439
Long-term marketable securities	81,380	75,347
Total cash, cash equivalents and marketable securities	<u><u>\$ 281,186</u></u>	<u><u>\$ 304,051</u></u>
Available borrowing capacity under revolving credit facility	50,000	50,000
Working capital	\$ 363,023	\$ 380,613

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

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

In addition to our existing cash and marketable securities balances, our principal sources of liquidity are our cash flows from operating activities and our revolving credit facility, which was fully available as of June 30, 2015. We believe these sources will provide sufficient liquidity for us to meet our liquidity requirements for the foreseeable future. Our principal liquidity requirements are to meet our working capital, research and development, including clinical trials, capital expenditure needs, principally for our surgical sets required to maintain and expand our business, and potential future business or intellectual property acquisitions. We expect to continue to make investments in surgical sets as we launch new products, increase the size of our U.S. sales force, and expand into international markets. We may, however, require additional liquidity as we continue to execute our business strategy. Our liquidity may be negatively impacted as a result of a decline in sales of our products, including declines due to changes in our customers' ability to obtain third-party coverage and reimbursement for procedures that use our products; increased pricing pressures resulting from intensifying competition, cost increases and slower product development cycles resulting from a changing regulatory environment; and unfavorable results from litigation which will affect our cash flow. We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of indebtedness, additional equity financings or a combination of these potential sources of

liquidity. The sale of additional equity may result in dilution to our stockholders. There is no assurance that we will be able to secure such additional funding on terms acceptable to us, or at all.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Seasonality and Backlog

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

Cautionary Note Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact are forward-looking statements. We have tried to identify forward-looking statements by using words such as “believe,” “may,” “might,” “could,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “plan” and similar words. These forward-looking statements are based on our current assumptions, expectations and estimates of future events and trends. Forward-looking statements are only predictions and are subject to many risks, uncertainties and other factors that may affect our businesses and operations and could cause actual results to differ materially from those predicted. These risks and uncertainties include, but are not limited to, factors affecting our quarterly results, our ability to manage our growth, our ability to sustain our profitability, demand for our products, our ability to compete successfully (including without limitation our ability to convince surgeons to use our products and our ability to attract and retain sales and other personnel), our ability to rapidly develop and introduce new products, our ability to develop and execute on successful business strategies, our ability to comply with changes and applicable laws and regulations that are applicable to our businesses, our ability to safeguard our intellectual property, our success in defending legal proceedings brought against us, trends in the medical device industry, and general economic conditions, and other risks set forth throughout our Annual Report on Form 10-K for the year ended December 31, 2014 (the “Form 10-K”), particularly those set forth under “Item 1A, Risk Factors” of the Form 10-K, and those discussed in other documents we file with the Securities and Exchange Commission (the “SEC”). Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for us to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements. Forward-looking statements contained in this Quarterly Report speak only as of the date of this Quarterly Report. We undertake no obligation to update any forward-looking statements as a result of new information, events or circumstances or other factors arising or coming to our attention after the date hereof.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. For example, these inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in a number of proceedings, legal actions and claims. Such matters are subject to many uncertainties, and the outcomes of these matters are not within our control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions prohibiting us from engaging in certain activities, which, if granted, could require significant expenditures and/or result in lost revenues. For further details on the material legal proceedings to which we are currently a party, please refer to **“Part I; Item 1. Financial Statements; Notes to Consolidated Financial Statements; Note 12. Commitments and Contingencies”** above.

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

Item 1A. Risk Factors

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

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

<u>Exhibit No.</u>	<u>Item</u>
10.1*	Fourth Amendment to Credit Agreement, dated May 4, 2015, by and between Globus Medical, Inc. and Wells Fargo Bank, National Association.
31.1*	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
* Filed herewith.	
** Furnished herewith.	

SIGNATURES

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

GLOBUS MEDICAL, INC.

Dated: July 31, 2015

/s/ DAVID C. PAUL

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

Dated: July 31, 2015

/s/ DANIEL T. SCAVILLA

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

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Item</u>
10.1*	Fourth Amendment to Credit Agreement, dated May 4, 2015, by and between Globus Medical, Inc. and Wells Fargo Bank, National Association.
31.1*	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.
** Furnished herewith.

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of May 4, 2015, by and between GLOBUS MEDICAL, INC., a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

RECITALS

WHEREAS, Borrower is currently indebted to Bank pursuant to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of May 3, 2011, as amended from time to time ("Credit Agreement").

WHEREAS, Bank and Borrower have agreed to certain changes in the terms and conditions set forth in the Credit Agreement and have agreed to amend the Credit Agreement to reflect said changes.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that the Credit Agreement shall be amended as follows:

1. Section 1.1. (a) is hereby amended by deleting "May 31, 2015" as the last day on which Bank will make advances under the Line of Credit, and by substituting for said date "May 31, 2016," with such change to be effective upon the execution and delivery to Bank of a promissory note dated as of May 4, 2015 (which promissory note shall replace and be deemed the Line of Credit Note defined in and made pursuant to the Credit Agreement) and all other contracts, instruments and documents required by Bank to evidence such change.

2. The following is hereby added to the Credit Agreement as Section 1.6.:

"SECTION 1.6. COLLECTION OF PAYMENTS. Borrower authorizes Bank to collect all principal, interest and fees due under each credit subject hereto by debiting Borrower's deposit account number 4124817552 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower."

3. Except as specifically provided herein, all terms and conditions of the Credit Agreement remain in full force and effect, without waiver or modification. All terms defined in the Credit Agreement shall have the same meaning when used in this Amendment. This Amendment and the Credit Agreement shall be read together, as one document.

4. Borrower hereby remakes all representations and warranties contained in the Credit Agreement and reaffirms all covenants set forth therein. Borrower further certifies that as of the date of this Amendment there exists no Event of Default as defined in the Credit Agreement, nor any condition, act or event which with the giving of notice or the passage of time or both would constitute any such Event of Default.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have caused this Amendment to be executed as a sealed instrument as of the day and year first written above.

GLOBUS MEDICAL, INC.

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ DAVID M. DEMSKI (SEAL)
DAVID M. DEMSKI
PRESIDENT, COO AND CFO

By: /s/ JOSEPH J. DEMARCO, JR.
JOSEPH J. DEMARCO, JR.
SENIOR VICE PRESIDENT

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

I, David C. Paul, certify that:

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

Date: July 31, 2015

/s/ DAVID C. PAUL

David C. Paul
Chairman
Chief Executive Officer

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

I, Daniel T. Scavilla, certify that:

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

Date: July 31, 2015

/s/ DANIEL T. SCAVILLA

Daniel T. Scavilla
Senior Vice President
Chief Financial Officer

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), David C. Paul, Chairman and Chief Executive Officer, and Daniel T. Scavilla, Senior Vice President and Chief Financial Officer of Globus Medical, Inc. (the “Company”), each certifies with respect to the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2015 (the “Report”) that, to the best of his knowledge:

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

Dated: July 31, 2015

/s/ DAVID C. PAUL

David C. Paul
Chairman
Chief Executive Officer

Dated: July 31, 2015

/s/ DANIEL T. SCAVILLA

Daniel T. Scavilla
Senior Vice President
Chief Financial Officer

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

