GLOBUS MEDICAL INC
Form 10-Q
November 09, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to _______________

Commission File No. 001-35621

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

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

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

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

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

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

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

The number of shares outstanding of the issuer’s common stock (par value $0.001 per share) as of October 31, 2016 was 95,825,128 shares.

Table of Contents

GLOBUS MEDICAL, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

| (In thousands, except par value) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 90,192 | $ 60,152 |
| Restricted cash | 477 | 26,119 |
| Short-term marketable securities | 167,727 | 220,877 |
| Accounts receivable, net of allowances of $2,694 and $2,513, respectively | 86,708 | 77,681 |
| Inventories | 115,606 | 105,260 |
| Prepaid expenses and other current assets | 11,605 | 7,351 |
| Income taxes receivable | 5,895 | 8,672 |
| Deferred income taxes | — | 38,687 |
| Total current assets | 478,210 | 544,799 |
| Property and equipment, net of accumulated depreciation of $159,314 and $139,114, respectively | 127,084 | 114,743 |
| Long-term marketable securities | 64,451 | 48,762 |
| Note receivable | 25,000 | — |
| Intangible assets, net | 67,438 | 33,242 |
| Goodwill | 110,250 | 91,964 |
| Other assets | 1,015 | 590 |
| Deferred income taxes | 28,295 | — |
| Total assets | $ 901,743 | $ 834,100 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 13,936 | $ 15,971 |
| Accrued expenses | 43,287 | 53,769 |
| Income taxes payable | 3,696 | 763 |
| Business acquisition liabilities, current | 4,888 | 12,188 |
| Total current liabilities | 65,807 | 82,691 |
| Business acquisition liabilities, net of current portion | 15,020 | 21,126 |
| Deferred income taxes | 9,013 | 13,260 |
| Other liabilities | 1,784 | 1,699 |
| Total liabilities | 91,624 | 118,776 |
| Commitments and contingencies (Note 13) | | |
| Equity: | | |
| Class A common stock; $0.001 par value. Authorized 500,000 shares; issued and outstanding 71,928 and 71,442 shares at September 30, 2016 and December 31, 2015, respectively | 72 | 71 |
| Class B common stock; $0.001 par value. Authorized 275,000 shares; issued and outstanding 23,878 at September 30, 2016 and December 31, 2015, respectively | 24 | 24 |
| Additional paid-in capital | 207,182 | 192,629 |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | (1,760 ) | (1,958 ) |
| Retained earnings | 604,601 | 524,558 |
| Total equity | 810,119 | 715,324 |
| Total liabilities and equity | $ 901,743 | $ 834,100 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| (In thousands, except per share amounts) | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Sales | $135,651 | $ 136,992 | $412,404 | $ 402,166 |
| Cost of goods sold | 31,453 | 32,927 | 95,703 | 97,393 |
| Gross profit | 104,198 | 104,065 | 316,701 | 304,773 |
| Operating expenses: | | | | |
| Research and development | 10,265 | 9,250 | 30,889 | 26,640 |
| Selling, general and administrative | 54,207 | 52,170 | 161,317 | 157,439 |
| Provision for litigation | — | 27 | 3,056 | 433 |
| Amortization of intangibles | 884 | 393 | 1,673 | 1,172 |
| Acquisition related costs | 1,192 | 1,550 | 1,347 | 2,864 |
| Total operating expenses | 66,548 | 63,390 | 198,282 | 188,548 |
| Operating income | 37,650 | 40,675 | 118,419 | 116,225 |
| Other income, net | | | | |
| Interest income, net | 795 | 342 | 1,893 | 898 |
| Foreign currency transaction gain/(loss) | 284 | (205) | 83 | (869) |
| Other income | 126 | 116 | 407 | 318 |
| Total other income, net | 1,205 | 253 | 2,383 | 347 |
| Income before income taxes | 38,855 | 40,928 | 120,802 | 116,572 |
| Income tax provision | 12,628 | 14,447 | 40,759 | 41,389 |
| Net income | $26,227 | $ 26,481 | $80,043 | $ 75,183 |
| Earnings per share: | | | | |
| Basic | $0.27 | $ 0.28 | $0.84 | $ 0.79 |
| Diluted | $0.27 | $ 0.28 | $0.83 | $ 0.78 |
| Weighted average shares outstanding: | | | | |
| Basic | 95,739 | 95,138 | 95,575 | 94,970 |
| Dilutive stock options | 753 | 981 | 829 | 1,056 |
| Diluted | 96,492 | 96,119 | 96,404 | 96,026 |
| Anti-dilutive stock options excluded from weighted average calculation | 5,457 | 3,234 | 5,378 | 3,118 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| (In thousands) | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|---|---|---|---|---|
| Net income | $26,227 | $ 26,481 | $80,043 | $ 75,183 |
| Other comprehensive income/(loss): | | | | |
| Unrealized gain/(loss) on marketable securities, net of tax | (165) | 75 | 119 | 103 |
| Foreign currency translation gain/(loss) | 141 | (124) | 79 | (184) |
| Total other comprehensive income/(loss) | (24) | (49) | 198 | (81) |
| Comprehensive income | $26,203 | $ 26,432 | $80,241 | $ 75,102 |

See accompanying notes to consolidated financial statements.

Table of Contents

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

| (In thousands) | Nine Months Ended September 30, 2016 | September 30, 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $80,043 | $ 75,183 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 21,536 | 17,669 |
| Amortization of premium on marketable securities | 3,067 | 2,352 |
| Write-down for excess and obsolete inventories | 6,919 | 7,122 |
| Stock-based compensation expense | 8,437 | 6,935 |
| Excess tax benefit related to nonqualified stock options | (1,484) | (1,973) |
| Allowance for doubtful accounts | 320 | 957 |
| Change in deferred income taxes | (1,356) | (4,115) |
| (Increase)/decrease in: | | |
| Restricted cash | 25,642 | (2,015) |
| Accounts receivable | 3,111 | (3,468) |
| Inventories | (6,609) | (16,998) |
| Prepaid expenses and other assets | 7,332 | (1,368) |
| Increase/(decrease) in: | | |
| Accounts payable | (3,426) | (2,812) |
| Accounts payable to related-party | — | (5,359) |
| Accrued expenses and other liabilities | (30,178) | 6,042 |
| Income taxes payable/receivable | 6,643 | (275) |
| Net cash provided by operating activities | 119,997 | 77,877 |
| | | |
| Cash flows from investing activities: | | |
| Purchases of marketable securities | (223,623) | (207,407) |
| Maturities of marketable securities | 211,138 | 131,318 |
| Sales of marketable securities | 47,109 | 46,064 |
| Purchases of property and equipment | (26,701) | (36,606) |
| Issuance of note receivable | (25,000) | — |
| Acquisition of businesses, net of cash acquired | (76,068) | (48,513) |
| Net cash used in investing activities | (93,145) | (115,144) |
| | | |
| Cash flows from financing activities: | | |
| Payment of business acquisition liabilities | (400) | (900) |
| Proceeds from exercise of stock options | 4,428 | 4,313 |
| Excess tax benefit related to nonqualified stock options | 1,484 | 1,973 |
| Net cash provided by financing activities | 5,512 | 5,386 |
| | | |
| Effect of foreign exchange rate on cash | (2,324) | 117 |
| | | |
| Net increase/(decrease) in cash and cash equivalents | 30,040 | (31,764) |
| Cash and cash equivalents, beginning of period | 60,152 | 82,265 |
| Cash and cash equivalents, end of period | $90,192 | $ 50,501 |

| | | |
|---|---|---|
| Supplemental disclosures of cash flow information: | | |
| Interest paid | 23 | 9 |
| Income taxes paid | $37,009 | $ 45,955 |

See accompanying notes to consolidated financial statements.

6

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 have also recently begun to develop a robotic surgical navigation device and products to treat patients who have experienced orthopedic traumas, although those development efforts are still ongoing and we currently have no robotic or orthopedic trauma products that are cleared by the U.S. Food and Drug Administration for sale. 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 160 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 consolidat subsidiaries.

(b) Basis of Presentation

The accompanying interim unaudited 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, 2015.

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

(c) Principles of Consolidation

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

(d) Use of Estimates

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

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

(e) Restricted Cash

In December 2014, we set aside cash for the payment of a portion of the DePuy Synthes and Bianco litigation. 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. On January 13, 2016, we settled our litigation with DePuy Synthes and made a payment of $7.9 million and recovered approximately $8.4 million related to that settlement shortly thereafter. As of September 30, 2016, we have $0.5 million of restricted cash remaining related to the Bianco matter. See “Note 13. Commitments and Contingencies” below for more details regarding these litigations.

(f) Marketable Securities

Our marketable securities include municipal bonds, corporate debt securities, commercial paper, securities of U.S. government-sponsored agencies and asset-backed securities, and are classified as available-for-sale as of September 30, 2016. Available-for-sale securities are recorded at fair value in both short-term and long-term marketable securities on our consolidated balance sheets. The change in fair value for available-for-sale securities is recorded, net of taxes, as a component of accumulated other comprehensive loss on our consolidated balance sheets. Premiums and discounts are recognized over the life of the related security as an adjustment to yield using the straight-line method. Realized gains or losses from the sale of our marketable securities are determined on a specific identification basis. Realized gains and losses, along with interest income and the amortization/accretion of premiums/discounts are included as a component of other income, net, on our consolidated statements of income. Interest receivable is recorded as a component of prepaid expenses and other current assets on our consolidated balance sheets.

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

(g) Inventories

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

(h) Revenue Recognition

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

(i) Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 amends the guidance in former Topic 605, Revenue Recognition, and most other existing revenue guidances in US GAAP. Under the new standard, an entity will recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services and provide additional disclosures. As amended, the effective date for public entities is annual reporting periods beginning after December 15, 2017 and interim periods therein. Early adoption is not permitted prior to the first quarter of 2017. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the timing and impact of the new standard on our financial position, results of operations, and disclosures.

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

In September 2015, the FASB released ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to the issuance of the standard, entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendments in ASU 2015-16 require an entity to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years, and interim

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

periods within those years, beginning after December 15, 2015, with early adoption permitted. The update is not expected to have a material impact on our financial position, results of operations, and disclosures.

In November 2015, the FASB released ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 simplifies the presentation of deferred income taxes by requiring that all deferred income taxes are classified as noncurrent in a classified statement of financial position. The amendments in ASU 2015-17 also aligns the presentation of deferred taxes with that of International Financial Reporting Standards. This update is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with earlier application permitted for all entities as of the beginning of an interim or annual reporting period. We adopted ASU 2015-17 prospectively effective March 31, 2016, therefore prior periods were not adjusted.

In February 2016, the FASB released ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases with terms greater than 12 months, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, and requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. We are currently evaluating the impact of this new accounting standard on our financial position, results of operations, and disclosures.

In March 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which will simplify the income tax consequences, accounting for forfeitures, and classification on the statements of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted, and will be applied either prospectively, retrospectively or using a modified retrospective transition method, depending on the area covered in this update. We are currently evaluating the impact of this new accounting standard on our financial position, results of operations, and disclosures.

NOTE 2. ACQUISITIONS

Alphatec International

On September 1, 2016 (the "Closing Date"), Globus Medical Ireland, Ltd. ("Globus Ireland"), a private limited company existing under the laws of Ireland and an indirect wholly-owned subsidiary of Globus, acquired from Alphatec Holdings, Inc., a Delaware corporation ("Alphatec") (i) substantially all of the assets and certain liabilities of Alphatec's subsidiaries in the United Kingdom, Italy, the Netherlands, Germany and Hong Kong and (ii) all of the outstanding equity interests of Alphatec's subsidiaries in Japan, Brazil, China, Singapore and Australia ("Alphatec International") pursuant to a Purchase and Sale Agreement entered into on July 25, 2016 (the "Purchase Agreement" and the "Acquisition"). The aggregate consideration for the transaction was approximately $80.1 million in cash, subject to customary adjustment after closing for certain working capital items as provided in the Purchase Agreement.

In addition, in connection with the Acquisition, Globus Ireland entered into a supply agreement with Alphatec, pursuant to which Alphatec will supply products to Globus Ireland and its newly-acquired subsidiaries for up to five years after the Closing Date.

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

We accounted for the acquisition under the purchase method of accounting, and as a result, recorded preliminary goodwill of approximately $18.3 million. The results of operations of Alphatec International 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 in early 2017. Any additional adjustments resulting from finalization of the purchase price allocations for Alphatec International will affect the amount assigned to goodwill. Based on our preliminary purchase price allocations, we estimate that $2.4 million of the goodwill from this acquisition is deductible for tax purposes.

As of September 30, 2016, we recorded the following preliminary purchase price allocation for the identifiable tangible and intangible assets and liabilities of Alphatec International:

| (In thousands) | |
|---|---|
| Consideration: | |
| Cash paid at closing | $80,000 |
| Preliminary working capital adjustment | 78 |
| Fair value of consideration | $80,078 |
| | |
| Identifiable assets acquired and liabilities assumed: | |
| Cash acquired | $4,010 |
| Accounts receivable | 12,402 |
| Inventory | 10,839 |
| Customer relationships | 38,800 |
| Property and equipment | 5,848 |
| Deferred tax assets | 1,193 |
| Other assets | 6,620 |
| Accounts payable and accrued expenses | (8,907) |
| Deferred tax liabilities | (9,013) |
| Total identifiable net assets | 61,792 |
| | |
| Goodwill | 18,286 |
| Total allocated purchase price | $80,078 |

The following unaudited pro forma information is based on our historical data and our assumptions for consolidated results of operations, and gives effect to our acquisition of Alphatec International as if the acquisition had occurred on January 1, 2015. These unaudited pro forma results include adjustments having a continuing impact on our consolidated statements of income. These adjustments primarily consist of: adjustments to the fair value of inventory, adjustments to depreciation for the fair value and depreciable lives of property and equipment, amortization of intangibles, interest income and adjustments to tax expense based on consolidated pro forma results. These results have been prepared using assumptions our management believes are reasonable, are not necessarily indicative of the actual results that would have occurred if the acquisition had occurred on January 1, 2015, and are not necessarily indicative of the results that may be

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

achieved in the future, including but not limited to operating synergies that we may realize as a result of the acquisition.

| (pro forma, in thousands, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net sales | $143,577 | $ 150,400 | $444,109 | $ 442,391 |
| Net income | 27,393 | 26,613 | 84,101 | 77,448 |
| Earnings per share: | | | | |
| Basic | $0.29 | $ 0.28 | $0.89 | $ 0.82 |
| Diluted | $0.28 | $ 0.28 | $0.88 | $ 0.81 |

Branch Medical Group, Inc.

On February 25, 2015, we entered into an agreement to acquire Branch Medical Group, Inc. (“BMG”), a related-party manufacturer of high precision medical devices located in Audubon, PA. We closed this acquisition on March 11, 2015, for $57.0 million in cash, $5.3 million in deferred consideration, and $0.9 million of closing working capital adjustments. The amount payable to BMG on the date of acquisition of $5.2 million was also settled in connection with the acquisition. The deferred consideration was a holdback of a portion of the sale price, to allow time to properly account for all working capital adjustments in the event of an unfavorable adjustment to the sellers. The full holdback amount of $5.3 million was paid in cash in July 2016.

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

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

NOTE 3. NOTE RECEIVABLE

On September 1, 2016, in connection with the Acquisition, we entered into a Credit, Security and Guaranty Agreement (the “Credit Agreement”) with Alphatec and Alphatec Spine, Inc. (“Alphatec Spine” and together with Alphatec, the “Alphatec Borrowers”), pursuant to which we made available to the Alphatec Borrowers a senior secured term loan facility in an amount not to exceed $30.0 million. On the Closing Date, we made an initial loan of $25.0 million and the Alphatec Borrowers issued a note for such amount to us.

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

The Credit Agreement contains customary operational and financial covenants, including a fixed charge coverage ratio to be maintained by the Alphatec Borrowers, and provides us with a security interest in all of the assets of the Alphatec Borrowers. The Credit Agreement has a scheduled maturity date five years from the Closing Date. The term loan interest rate for the first two years following the Closing Date will be priced at the London Interbank Offered Rate ("LIBOR") plus 8.0%, subject to a 9.5% floor. The term loan interest rate thereafter will be LIBOR plus 13.0%. Interest accrues on the note receivable based on the contractual terms of the note. We consider a note to be impaired when, based on current information or factors (such as payment history, value of collateral and assessment of the borrower's current creditworthiness), it is probable that the principal and interest payments will not be collected according to the note agreement. As of September 30, 2016, we do not consider this note to be impaired. We believe that the note's carrying value approximates its fair value.

NOTE 4. INTANGIBLE ASSETS

A summary of intangible assets is presented below:

| | | September 30, 2016 | | |
|---|---|---|---|---|
| (In thousands) | Weighted Average Amortization Period (in years) | Gross Carrying Amount | Accumulated Amortization | Intangible Assets, net |
| In-process research & development | — | $21,089 | $ — | $ 21,089 |
| Supplier network | 10.0 | 4,000 | (767) | 3,233 |
| Customer relationships & other intangibles | 6.8 | 44,325 | (3,633) | 40,692 |
| Patents | 16.1 | 3,035 | (611) | |