

EXACTECH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>(unaudited)</u> <u>June 30,</u> <u>2017</u>	<u>(audited)</u> <u>December 31,</u> <u>2016</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,917	\$ 13,052
Trade receivables, net of allowances of \$1,707 and \$1,473	57,733	53,051
Prepaid expenses and other assets, net	3,606	3,075
Income taxes receivable	1,848	2,140
Inventories, current	67,358	65,264
Assets held for sale	2,695	6,477
Total current assets	142,157	143,059
PROPERTY AND EQUIPMENT:		
Land	4,530	4,474
Machinery and equipment	43,033	42,034
Surgical instruments	144,018	132,134
Furniture and fixtures	4,713	4,700
Facilities	21,690	21,726
Projects in process	6,818	2,473
Total property and equipment	224,802	207,541
Accumulated depreciation	(108,160)	(100,234)
Net property and equipment	116,642	107,307
OTHER ASSETS:		
Deferred financing, deposits and other	4,326	968
Equity investment	1,952	2,047
Deferred tax asset	—	887
Non-current inventory	11,823	15,723
Product licenses and designs, net	8,933	9,102
Patents and trademarks, net	717	821
Customer relationships, net	467	476
Goodwill	14,758	13,819
Total other assets	42,976	43,843
TOTAL ASSETS	\$ 301,775	\$ 294,209
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 16,602	\$ 17,566
Income taxes payable	1,772	780
Accrued expenses	13,017	11,832
Liabilities held for sale	325	—
Other current liabilities	2,884	2,927
Total current liabilities	34,600	33,105
LONG-TERM LIABILITIES:		
Deferred tax liabilities	3,243	1,773
Long-term debt, net of current portion	14,000	20,000
Other long-term liabilities	3,152	5,089
Total long-term liabilities	20,395	26,862
Total liabilities	54,995	59,967
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock	145	144
Additional paid-in capital	90,228	87,319
Treasury Stock	(3,042)	(3,042)
Accumulated other comprehensive loss, net of tax	(8,398)	(8,611)
Retained earnings	167,847	158,432
Total shareholders' equity	246,780	234,242
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 301,775	\$ 294,209

EXACTECH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(Unaudited)

	Three Month Periods Ended June 30,		Six Month Periods Ended June 30,	
	2017	2016	2017	2016
NET SALES	\$ 67,327	\$ 66,124	\$ 136,809	\$ 131,422
COST OF GOODS SOLD	<u>21,054</u>	<u>20,268</u>	<u>41,695</u>	<u>40,636</u>
Gross profit	46,273	45,856	95,114	90,786
OPERATING EXPENSES:				
Sales and marketing	23,569	23,835	48,622	47,154
General and administrative	5,621	5,640	12,157	11,554
Research and development	5,380	5,329	11,604	10,399
Depreciation and amortization	<u>4,732</u>	<u>4,410</u>	<u>9,391</u>	<u>8,734</u>
Total operating expenses	39,302	39,214	81,774	77,841
INCOME FROM OPERATIONS	<u>6,971</u>	<u>6,642</u>	<u>13,340</u>	<u>12,945</u>
OTHER INCOME (EXPENSE):				
Interest income	52	2	55	6
Other income (loss)	185	32	328	72
Interest expense	(238)	(268)	(464)	(530)
Foreign currency exchange gain	<u>168</u>	<u>98</u>	<u>730</u>	<u>592</u>
Total other income (expenses)	167	(136)	649	140
INCOME BEFORE INCOME TAXES	<u>7,138</u>	<u>6,506</u>	<u>13,989</u>	<u>13,085</u>
PROVISION FOR INCOME TAXES	2,255	2,120	4,479	4,297
INCOME BEFORE EQUITY IN LOSS OF INVESTEE	<u>4,883</u>	<u>4,386</u>	<u>9,510</u>	<u>8,788</u>
EQUITY IN LOSS OF INVESTEE, NET OF TAX	(52)	—	(95)	—
NET INCOME	<u>\$ 4,831</u>	<u>\$ 4,386</u>	<u>\$ 9,415</u>	<u>\$ 8,788</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.34</u>	<u>\$ 0.31</u>	<u>\$ 0.66</u>	<u>\$ 0.62</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.33</u>	<u>\$ 0.31</u>	<u>\$ 0.65</u>	<u>\$ 0.62</u>
SHARES - BASIC	14,321	14,112	14,297	14,084
SHARES - DILUTED	14,574	14,298	14,513	14,243

Non-GAAP Disclosure and Reconciliation

We present certain non-GAAP results as a supplement to our financial results based on GAAP, as we believe it is useful to exclude certain items in order to focus on what we regard to be a more reliable indicator of the underlying operating performance of our business. Because we operate internationally, we present the percentage change in sales by reporting segment on a constant currency basis, which is a non-GAAP financial measure. We calculate this change on a constant currency basis by translating current period sales at the comparable average historical exchange rates for the same period in the prior year. We believe that presenting the percentage change in sales on a constant currency basis assists in the understanding of actual sales fluctuations by excluding the impact of foreign currency fluctuations.

Additionally, we report on a non-GAAP basis adjusted sales, gross margin, operating expenses, income, and diluted earnings per share excluding charges related to the spine assets we sold January 2017. We believe the exclusion of spine sales and costs provides the reader with more comparable financials to better analyze the reported periods. The following items have been adjusted:

- Sales, cost of goods sold, and operating expenses from our spine products
- Transition charges related to the sale of our spine assets
- Personnel and severance costs related to the transition

	Six Months June 30, 2017			Six Months June 30, 2016			Change %	
	Reported	US Spine	Adjusted	Reported	US Spine	Adjusted	Reported	Adjusted
Domestic sales	\$ 93,355	\$ 282	\$ 93,073	\$ 89,185	\$ 3,758	85,427		
International sales	43,454	—	43,454	42,237	—	42,237		
Total sales	<u>136,809</u>	<u>282</u>	<u>136,527</u>	<u>131,422</u>	<u>3,758</u>	<u>127,664</u>	4.1%	6.9%
Gross profit	95,114	187	94,927	90,786	1,700	89,086	4.8	6.6
Operating expense	81,774	715	81,059	77,841	1,886	75,955	5.1	6.7
Other income	649	—	649	140	—	140	363.6	363.6
Income before income tax and equity in loss of investee	<u>13,989</u>	<u>(528)</u>	<u>14,517</u>	<u>13,085</u>	<u>(186)</u>	<u>13,271</u>	6.9	9.4
Income tax	4,479	(140)	4,619	4,297	(67)	4,364	4.2	5.9
Equity in loss of investee	(95)	—	(95)	—	—	—		
Net income (loss)	<u>\$ 9,415</u>	<u>\$ (388)</u>	<u>\$ 9,803</u>	<u>\$ 8,788</u>	<u>\$ (119)</u>	<u>\$ 8,907</u>	7.1	10.1
Diluted EPS	<u>\$ 0.65</u>	<u>\$ (0.03)</u>	<u>\$ 0.68</u>	<u>\$ 0.62</u>	<u>\$ (0.01)</u>	<u>\$ 0.63</u>		

We also provide adjusted forward looking guidance on diluted earnings per share for the full year for 2017. We believe this adjusted guidance will assist in comparative measures. The following reconciles the guidance ranges to expected guidance on a GAAP basis:

	Twelve Months Ended December 31, 2017
Expected diluted EPS range on GAAP basis	\$1.25 - \$1.29
Adjustment: Spine asset divestiture	0.02
Adjusted total diluted EPS range	\$1.27-\$1.31