Alphatec Holdings, Inc.
Form 10-K
March 02, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Form 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

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 number: 000-52024

ALPHATEC HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	20-2463898
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5818 El Camino Real, Carlsbad, California	92008
(Address of Principal Executive Offices)	(Zip Code)

(760) 431-9286

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.0001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨ Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) based on the last reported sale price of the common stock on June 30, 2009 was approximately $100.5 million.

The number of outstanding shares of the registrant s common stock, par value $0.0001 per share, as of February 26, 2010 was 54,136,268.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant s Proxy Statement for the 2010 Annual Meeting of Stockholders.

Table of Contents

ALPHATEC HOLDINGS, INC.

FORM 10-K ANNUAL REPORT

For the Fiscal Year Ended December 31, 2009

Table of Contents

Table of Contents

PART I

Item 1. Business

We are a Delaware corporation. We were incorporated in March 2005. Our principal executive office is located at 5818 El Camino Real, Carlsbad, California 92008. In this Annual Report on Form 10-K, the terms we, us and our includes Alphatec Holdings, Inc., or Alphatec or Alphatec Holdings, and our subsidiaries.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and, accordingly, file reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. Such reports, proxy statements and other information can be read and copied at the public reference facilities maintained by the SEC at the Public Reference Room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website (http://www.sec.gov) that contains material regarding issuers that file with the Securities and Exchange Commission.

Our Internet address is www.alphatecspine.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, are available to you free of charge through the Investor Relations section of our website as soon as reasonably practicable after such materials have been electronically filed with, or furnished to, the Securities and Exchange Commission.

Overview

We are a medical technology company focused on the design, development, manufacturing and marketing of products for the surgical treatment of spine disorders, with a focus on products that treat conditions that affect the aging spine. Our broad product portfolio and pipeline includes a variety of spinal disorder products and systems focused on solutions addressing the cervical, thoracolumbar, intervertebral, minimally invasive, vertebral compression fracture, disorders related to poor bone quality, and spinal stenosis markets. Our principal product offerings are focused on the global market for orthopedic spinal disorder solution products, which is estimated to be more than $8.5 billion in revenue in 2009 and is expected to grow between 10%-12% over the next year. Our surgeons culture emphasizes collaboration with spinal surgeons to conceptualize, design and co-develop a broad range of products. We have a state-of-the-art, in-house manufacturing facility that provides us with a unique competitive advantage, and enables us to rapidly deliver solutions to meet surgeons and patients critical needs. Our products and systems are made of titanium, titanium alloy, stainless steel, cobalt chrome and a strong, heat resistant, radiolucent, biocompatible plastic called polyetheretherketone, or PEEK. We also sell products made of allograft, precision-milled and processed human bone that surgeons can use in place of metal and synthetic materials. We also sell bone-grafting products that are comprised of both tissue-based and synthetic materials. We believe that our products and systems have enhanced features and benefits that make them attractive to surgeons and that our broad portfolio of products and systems provide a comprehensive solution for the safe and successful surgical treatment of spine disorders. All of our implants that are sold in the U.S. that require U.S. Food and Drug Administration, or FDA, clearance have been cleared by the FDA. In the U.S. our products have been used in over 12,900 and 10,700 surgeries in 2009 and 2008, respectively. In addition to selling our products in the U.S., we also sell our products in Japan, the European Union, South America and Hong Kong.

On December 17, 2009, we entered into a definitive agreement to acquire Scient x Groupe S.A.S., or Scient x, a global medical device company based in Guyancourt, France that designs, develops and manufacturers surgical implants to treat disorders of the spine. The transaction is structured as an all stock transaction such that 100% of outstanding Scient x stock will be exchanged pursuant to a fixed ratio for 24,000,000 shares of our common stock. The transaction is currently expected to close by the end of the first quarter of 2010 and is subject to the approval of our shareholders. Two of our principal stockholders,

Table of Contents

HealthpointCapital Partners, L.P. and HealthpointCapital Partners II, L.P., together with their affiliates, HealthpointCapital, own approximately 94.8% of Scient x s outstanding stock.

Strategy

Our strategy is to be the leading independent full-line spine company, with a focus on solutions for the aging spine. The aging spine has unique characteristics and our aging spine solutions are targeted at providing superior efficacy in dealing with patients who suffer from poor bone density, vertebral compression fractures, adult deformity or scoliosis, degenerative disc disease, and spinal stenosis. To further differentiate our solutions, we have incorporated minimally invasive access techniques, and biologic solutions into our portfolio to improve patient outcomes. We believe that we have developed a strong product platform for consistent and measured growth and intend to leverage this platform by, among other things, providing unmatched service to, and taking scientific direction from, surgeons. In addition to bringing innovative products to market, we understand that surgeons make the ultimate decision as to whether our products are used in a surgical procedure. Accordingly, we view our relationship with the surgeon community as an integral component of our strategy.

The key elements of our strategy are:

Provide a Full Range of Spine Disorder Products and Continually Expand our Product Offering. We offer a full range of spinal devices and surgical instruments used to treat spine disorders. We believe that this comprehensive approach enables us to maximize our revenue for each procedure by fulfilling a greater portion of a surgeon s spine product needs. We intend to continue to enhance our product offering by developing technologies that we can market through our sales organization to our established surgeon base and surgeons not yet using our products.

Focus on Underserved and Rapidly Growing Segments of the Market. We are focused on creating solutions to address the rapidly growing elderly demographic and the unique issues facing such patients. We will focus on less invasive implants and techniques, and solutions for adult onset deformities, vertebral compression fractures, stenosis and issues related to patients with poor bone quality, each of which represents a large underserved market segment. We believe that our strategic focus in underserved and rapidly growing areas will offer us increased revenue and deeper market penetration.

Develop Innovative Products and Solutions in Conjunction with Surgeons. One of our core competencies is our ability to develop and commercialize creative spinal implants and instruments that incorporate concepts and feedback from surgeons. We collaborate with surgeons to help us to enhance our current products and develop innovative new technologies. We believe that our short-term and long-term product pipeline will offer us increased revenue opportunities by addressing a wider range of spine disorders, and improving patient outcomes.

License or Acquire Complementary Spine Products and Technologies. In addition to building our product portfolio through internal product development efforts, we have licensed and will continue to license or acquire complementary spine products and technologies. By licensing or acquiring complementary products and technologies, we believe we can leverage our expertise at bringing new products to market and provide additional marketing opportunities for our sales organization.

Grow our International Business. We have an established presence in Japan and Europe. We plan to continue expanding our distribution network and product offerings throughout Asia, Europe and South America. We also plan to obtain regulatory clearances and distribution networks in other areas of the world where we can benefit from selling our unique products and technologies.

Focus on Rapid Responsiveness and Total Surgeon Satisfaction. We believe that our focus on rapid responsiveness to surgeon needs and the support we provide to surgeons differentiates us in the marketplace. We have the capability to manufacture substantially all of our non-allograft products at our facilities, which enables us to rapidly modify implants and instruments to satisfy surgeons needs and rapidly replenish inventory. This allows us to respond quickly to unexpected increases in market demand for our products. Responding quickly to the needs of surgeons is central to our corporate culture.

Table of Contents

Enhance U.S. Sales and Marketing Efforts. Our products are sold in the U.S. through a network of over 90 independent distributors, which we believe employ approximately 280 agents. We also employ 16 direct sales representatives and sales management employees and executives. We continually seek to increase the number and quality of our independent distributors, direct sales representatives and sales management employees and executives. We educate and support our independent distributors, often our first point of contact with surgeons, as if they were part of our organization.

Increase the Exclusivity of our Sales Force. We believe that having a sales force dedicated to selling only our spinal products will lead to greater market penetration and increased sales. In 2009, approximately 75% of our distributors in the U.S. were exclusive.

Spine Anatomy

The human spine is the core of the human skeleton and provides important structural support while remaining flexible to allow movement. The human spine is a column of 33 bones that protects the spinal cord and enables people to stand upright. Each bony segment of the spine is referred to as a vertebra (two or more are called vertebrae). The spine has five regions containing groups of similar bones, listed from top to bottom: seven cervical vertebrae in the neck, 12 thoracic vertebrae in the mid-back (each attached to a rib), five lumbar vertebrae in the lower back, five sacral vertebrae fused together to form one bone in the hip region, and four coccygeal bones fused together that form the tailbone. At the front of each vertebra is a block of bone called the vertebral body. The vertebral body consists of an inner core of soft cancellous bone, surrounded by a thin outer layer of hard cortical bone. Vertebrae are stacked on top of each other and enable people to sit and stand upright. Vertebrae in the cervical, thoracic and lumbar regions are separated from each other and cushioned by a rubbery soft tissue called the intervertebral disc. Segments of bone that extend outward at the back of each cervical, thoracic and lumbar vertebral body surround and protect the spinal cord and its nerve roots. These bones, known as the posterior spinous processes, can be felt along the middle of a person s back.

Disorders Affecting the Spine

There are four major categories of spine disorders: degenerative conditions, deformities, trauma-based disorders and tumors. While our product offering addresses all four categories of spine disorders, the majority of our business is concentrated on products used in the treatment of degenerative and deformity conditions. These conditions can result in instability and pressure on the nerve roots as they exit the spinal column, causing back pain and potentially pain in the arms or legs.

Some of the most common medical conditions affecting the spine are as follows:

Degenerative disc disease is a common medical condition affecting the cervical, thoracic and lumbar regions of the spine and refers to the degeneration of the disc from aging and repetitive stresses resulting in a loss of flexibility, elasticity and shock-absorbing properties. As degenerative disc disease progresses, the space between the vertebrae narrows, or the disc can bulge or rupture, which can pinch the nerves exiting the spine and result in back pain, leg pain, numbness and loss of motor function. This back pain can be overwhelming for patients as the resulting pain can have significant physical, psychological and financial implications.

A *Vertebral compression fracture,* or VCF, occurs when a vertebra in the spinal column fractures or collapses. Vertebral compression fractures have multiple acute and chronic consequences including back pain, loss of back function and diminished quality of life. Chronic consequences of a VCF can also result in pulmonary and gastric dysfunction, as well as depression. Deformity resulting from a VCF worsens these problems and can increase the risk of another fracture, which can further exacerbate complications from the initial VCF, including an increase in the loss of mobility and ultimately increased mortality.

Spinal stenosis is a narrowing of the spinal canal, which places pressure on the spinal cord. If the stenosis is located on the lower part of the spinal cord it is called lumbar spinal stenosis. Stenosis in the upper part of

Table of Contents

the spinal cord is called cervical spinal stenosis. While spinal stenosis can be found in any part of the spine, the lumbar and cervical areas are the most commonly affected. Some patients are born with this narrowing, but most often spinal stenosis is seen in patients over the age of 50. In these patients, stenosis is the gradual result of aging and wear and tear on the spine during everyday activities.

Spondylolisthesis occurs when one vertebra slips forward in relation to an adjacent vertebra, usually in the lumbar spine. The symptoms that accompany spondylolisthesis include pain in the lower back and legs, and muscle spasms and weakness. Spondylolisthesis can be congenital or develop later in life. The disorder may result from physical stresses to the spine, intense physical activity, and general wear and tear.

The Alphatec Solution

Our principal product offering includes a wide variety of spinal implant products and systems comprised of components such as spine screws and rods, adjustable bridges, spinal spacers, plates, bone cement for use in a vertebroplasty and various biologic offerings. In addition, outside of the U.S. we sell an additional solution for treating vertebral compression fractures and a screw that is designed to be used in patients that require increased fixation. Generally, spine screws are inserted into the vertebrae in order to affix rods, plates and other stabilizing devices during spine procedures using our products. Spinal spacers are inserted between vertebrae and are used to provide support in order to restore lost disc space, alignment, and weight-bearing function. Plates are attached to adjacent vertebrae to further stabilize the vertebrae and facilitate healing. Polymethylmethacrylate, or PMMA, is a bone cement that is inserted into a vertebral compression fracture to stabilize the fracture. In addition, outside of the U.S. we sell our OsseoFix implant, which provides additional stabilization of a VCF prior to the use of PMMA and our OsseoScrew, which is designed to be used in patients that require increased fixation. Certain of our biologics offerings are used as an alternative to our polyetheretherketone, or PEEK, or metal products while others complement such products by promoting fusion.

We currently sell our spinal solution products as spine systems, categorized by the spinal disorder and the method of treatment. The chart below illustrates our broad portfolio of currently marketed spine systems and our systems under development and includes the distinguishing features and components for our systems.

Table of Contents

Current Products:

Category	Alphatec System	System Features and Components
Thoracolumbar Degenerative Fixation Systems	Zodiac Degenerative Fixation	Polyaxial pedicle screws and rods, with instrumentation
	CORE Lumbar Plating	Fixed-post pedicle screws and rigid connector plates, with instrumentation
Thoracolumbar Deformity Fixation Systems	Zodiac Deformity Fixation	Polyaxial pedicle screws, hooks, rods, and connectors comprised of either titanium, stainless steel or cobalt chrome, with instrumentation
Spinal Spacers	Novel PEEK and Titanium Spacers	Spinal spacers made of PEEK or titanium in various shapes and sizes for use in both the lumbar and cervical regions of the spine, with instrumentation
Allograft Spacers	Connect, Connect II, Solo and Duet Allograft Spacers	Spinal spacers made of dense, porous, cancellous human tissue, in various shapes and sizes, with instrumentation
Anterior Cervical Plating	Trestle Anterior Cervical Plate	Cervical plates, and fixed and variable screws, with instrumentation
	Reveal Anterior Cervical Plate	Cervical plates, and fixed and variable screws, with instrumentation
Posterior Cervico/Thoracic Fixation	Solanas Posterior Cervico/Thoracic Fixation	Polyaxial pedicle screws, rods, hooks and connectors, with instrumentation
Adjustable Bridges	Alphatec Adjustable Bridge System	Adjustable cross-connectors that may be used to strengthen a thoracolumbar or cervico/thoracic construct
Bone Grafting Materials	Alphagraft and Alphagrans	Tissue-based and synthetic bone grafting materials
	ProFuse Bone Grafting Scaffold	Sponge-like demineralized bone matrix
	EquivaBone	Demineralized bone matrix and nanocrystalline calcium phosphate that sets hard in vivo
Vertebroplasty	OsseoFix+	Stand-alone vertebroplasty system using proprietary PMMA bone cement

Table of Contents

Category	Alphatec System	System Features and Components
Minimally Invasive Access Systems and Techniques	Illico SE Minimally Invasive System	Minimally invasive retractor and implant delivery instrumentation
	Guided Lumbar Interbody Fusion System, or GLIF System and ARC Portal	Minimally invasive access system that allows multiple access planes through one incision point
Proprietary Packaging Systems	Vacuum Infusion Packaging (VIP) System	Packaging system for allografts and ProFuse Scaffold that uses a vacuum to provide rapid hydration
Wound Barriers	AmnioShield	Tissue-based in vivo wound covering

Products in Development (None of the following products are available for sale in the U.S.):

Category	Alphatec System	System Features and Components
Treatments for Vertebral Compression Fractures	OsseoFix	Minimally invasive device that stabilizes the vertebral body
Treatments for Patients with Poor Bone Quality	OsseoScrew	Polyaxial pedicle screw that is designed to expand after implantation to increase screw fixation purchase in patients that require increased fixation
Cervico/Thoracic Occipital Plate	Posterior Occipital Plate	Occipital plate used with a posterior cervico/thoracic fixation systems
Stand-Alone Anterior Plate and Spacer	Stand-Alone Anterior Lumbar Plate	Stand-alone fusion plating system that is designed to enable surgeons to perform anterior lumbar fusions without the need for the use of additional posterior implants
	Solus Stand-Alone Anterior Lumbar Spacer	Stand-alone spinal spacer with a proprietary locking mechanism to prevent migration after insertion
Treatments for Lumbar Spinal Stenosis	Helifix/Helifuse	Minimally invasive devices used to treat lumbar spinal stenosis
	Interspinous Process Plating System	Plating system used to treat spinal stenosis
Stem Cell-based Products	ELA Stem Cell	Osteoprogenitor adult stem cell used to increase fusion rates

Our Current Products

Thoracolumbar Degenerative and Deformity Fixation Products

Thoracolumbar fixation systems are used to facilitate fusion, the growth of a bony connection between two adjacent vertebrae. The purpose of fusion is to prevent the motion caused by the instability between the vertebrae, which is intended to reduce the pressure on the spinal cord. Fusion systems are designed to reduce the motion of the vertebrae during the period it takes for the vertebrae to fuse together. Polyaxial pedicle screws are surgically positioned from the posterior, or back, of the spine and are placed into the pedicle. The screws are inserted through the midline of the pedicle and act as anchors for the rods that connect two or more vertebrae. Once the rods and screws are put in place, the system provides a fixed environment with corrected alignment to facilitate the fusion.

Table of Contents

Because each vertebra varies in size, shape and alignment, screw heads that pivot relative to the post of the screw allows surgeons to achieve proper screw placement. The pivoting head of a polyaxial screw makes it possible to implant a rod through multiple screw heads, despite the fact that the screws connected to the rod may be out of alignment with each other due to the positioning of the patient s vertebrae. Once the screws and rods are in place, a set screw is used to lock the rod to the head of the screw and secure the polyaxial head of the screw.

Zodiac Degenerative Fixation System

Our Zodiac Degenerative Fixation System is a comprehensive spinal system that offers a wide variety of polyaxial pedicle screws, and advanced instruments. We believe our Zodiac Degenerative Fixation System offers surgeons one of the lowest profiles, or the height that the screw sits above the plane of the rod after insertion, among polyaxial screws currently on the market. This low profile reduces the amount of internal disruption of tissue adjacent to the pedicle and is intended to speed the healing cycle. Our Zodiac Degenerative Fixation System has a unique set-screw closure mechanism that helps to ensure that the assembly is easily constructed during surgery. It also has pre-cut and pre-contoured rods that are available in several sizes, which allow surgeons to customize each construct depending on the patient s needs. Our Zodiac Degenerative Fixation System is designed to be used in connection with our Novel Spacers and our Allograft Spacers.

CORE Lumbar Plating System

Our CORE Lumbar Plating System is a posterior lumbar plating system that provides an alternative to traditional screw and rod constructs. The CORE Lumbar Plating system is comprised of a rigid pre-contoured plate and rods that is anchored by fixed-post pedicle screws. We believe that this design makes the CORE Lumbar Plating system particularly effective in the treatment of spondylolisthesis.

Zodiac Deformity Fixation System

Our Zodiac Deformity Fixation System is designed to be used in conjunction with many of our other products, including our Zodiac Degenerative Fixation System, our Novel Spacers and our Allograft Spacers. Our Zodiac Deformity Fixation System has components such as polyaxial screws, connectors and instrumentation that are designed to enable the surgeon to address patient-specific spinal deformities.

Spinal Spacers

A spinal spacer is intended to be inserted in the space between vertebrae to provide support in order to restore disc space height, alignment, and the spine s weight-bearing function. In a typical surgical procedure, the surgeon will use a spacer to replace the diseased or damaged space between vertebrae. Spinal spacers are used in combination with screw, rod and plate constructs. All spinal spacers, regardless of composite material, are available in a variety of shapes and sizes to fit the patient s anatomy. While our first spinal spacers were principally fabricated from titanium, we now offer products fabricated from PEEK as well as titanium.

Novel PEEK and Titanium Spacers

Our family of Novel PEEK and titanium spacers addresses the surgical need to accommodate varying patient anatomies, surgical approaches and composite material options. We offer multiple unique implant designs, each of which is available in numerous shapes and heights. Our Novel PEEK spinal spacers have been approved for use in both the lumbar and cervical regions of the spine. Novel spacers and their accompanying instrumentation are designed to be inserted from several planes of the body to accommodate surgeons needs. Novel spacers feature sizable central openings that help accommodate the placement of bone grafting material inside and around the spacer, which we believe promotes fusion. A ridge pattern on the top and bottom of our

Table of Contents

Novel spacers helps prevent movement after placement and enhances the stability of the overall construct. Our Novel PEEK spacers are not visible during a magnetic resonance imaging, or MRI, which allows the surgeon to better assess the progress of the healing process following surgery.

Allograft Spacers

The use of allograft-derived products appeals to many surgeons, as many surgeons believe that the use of allograft allows patients to accelerate the creation of living bone cells and eventually incorporate the allograft into the newly created, living bone. Allograft-derived products are fabricated from cadaver bone and precision-machined into standardized shapes resembling PEEK or titanium spacers. Tissue banks are responsible for recovering and processing donated tissue from cadavers in accordance with standards developed by the American Association of Tissue Banks and the FDA.

Connect, Connect II, Solo and Duet Allograft Spacers

We offer a broad portfolio of allograft spacers available in a wide range of shapes and sizes, each with corresponding instrumentation, which are intended for use in the cervical, thoracic, and lumbar regions of the spine. We have multiple distinct cervical allograft spacer designs. Additionally, we offer a posterior lumbar allograft spacer. This gives the surgeon several variations of size and shape to choose from during a surgical procedure. Our allograft spacers also come in a variety of densities, permitting surgeons to decide whether to place an emphasis on rigidity, by using a dense allograft, or porosity, by using a less-dense allograft.

Anterior Cervical Plating

Anterior solutions to cervical, or neck, pathologies are considered to be the standard of care in cervical fusion. In cases where surgery is needed to alleviate pressure on a nerve or the spinal cord, often the surgeon removes large portions of the disc material or vertebrae. The more disc material that is removed or vertebrae that are affected, the less stable the surgical site becomes, which increases the need to use a cervical plate to stabilize the surgery site. The most common cervical fusion performed is anterior cervical plating, or ACP. In an ACP procedure, a metal plate is inserted across adjacent neck vertebrae and secured in place by screws. The cervical plate stabilizes the vertebrae to facilitate fusion.

Trestle Anterior Cervical Plate System

Our Trestle Anterior Cervical Plate System has a large window that enables the surgeon to have improved graft site and end plate visualization; which is designed to allow for better placement of the plate. The Trestle Anterior Cervical Plate System also has a low-profile design, which we believe is among the lowest in the spine market. Low-profile cervical plates are intended to reduce the disruption of the tissue adjacent to the plate following surgery. Other key features of the Trestle Anterior Cervical Plate system include a self-retaining screw-locking mechanism that is designed to ensure quick and easy locking of the plate and a flush profile after the screws are inserted.

Reveal Anterior Cervical Plate System

Our Reveal Anterior Cervical Plate System features a large window that enables the surgeon to see the graft site during surgery which is designed to allow for better placement of the plate. The Reveal Anterior Cervical Plate System s locking mechanism reduces the number of steps required by the surgeon to lock the screws to the plate, which saves time during surgery and allows a surgeon to visually confirm whether the mechanism has been locked.

Table of Contents

Posterior Cervico/Thoracic Fixation

Solanas Posterior Cervico/Thoracic Fixation

Our Solanas Posterior Cervico/Thoracic Fixation System consists of rods, polyaxial screws and connectors that provide a solution for posterior cervico/thoracic fusion procedures. Our Solanas Cervico/Thoracic System includes many of the benefits of our Zodiac Degenerative Fixation System, including a polyaxial pedicle screw that contains a unique set screw. We also designed the Solanas Cervico/Thoracic System to be used in combination with our existing Zodiac Degenrative Fixation System, thereby providing additional options for surgeons.

Adjustable Bridges

Alphatec Adjustable Bridge System

We sell adjustable bridges as a complement to our thoracolumbar and cervico-thoracic constructs. Adjustable bridges may be used to strengthen the fusion construct.

Bone Grafting Materials

Bone grafting materials are often used by a surgeon during surgery to fill voids or gaps that are caused by trauma or the surgical procedure.

Alphagraft and Alphagrans

Our Alphagraft product is a demineralized bone matrix, or DBM, mixed with a bioabsorbable carrier that is used for bone grafting. Our Alphagrans product consists of bioabsorbable synthetic granules that are used for bone grafting.

ProFuse Bone Grafting Scaffold

Our ProFuse product consists of a sponge-like DBM that has been cut into precise sizes to fit within our spinal spacers. The ProFuse product provides a natural scaffold derived entirely of bone that can be placed into a void within a spinal spacer or on top of a spinal spacer. The sponge-like qualities of the scaffold allow a surgeon to compress the scaffold and place it into a small space. Following placement, the scaffold expands for maximum contact between the spinal spacer and the endplate of the vertebral body and is designed to promote fusion. The ProFuse scaffold comes pre-packaged in our proprietary VIP vacuum infusion packaging system.

EquivaBone

Pursuant to our agreement with ETEX Corporation, we have the right to market and sell EquivaBone, a proprietary combination of DBM and nanocrystalline calcium phosphate that sets hard once placed inside of the patient. EquivaBone is cleared by the FDA for use in posterolateral spinal fusion. Unlike most comparable products on the market, EquivaBone sets hard and remains in place once implanted.

Vertebroplasty Products

A vertebroplasty is a procedure in which PMMA bone cement is put directly into a VCF to stabilize the fracture.

OsseoFix+

Our OsseoFix+ product consists of our bone cement, and a mixing and delivery system that, can be used in a stand-alone vertebroplasty procedure.

Table of Contents

Minimally Invasive Access Systems and Techniques

Illico SE Minimally Invasive System

The Illico Minimally Invasive System is a cannulated pedicle screw and rod system that is designed to be inserted via a minimally invasive surgical procedure. Access to the spine is gained through a small incision. The surgeon is then able to see the surgical site by using a retractor that contains a small canal through which implants are inserted into the patient with a minimum amount of disruption to the surrounding tissue. We believe that the Illico System will significantly reduce the length of posterior surgeries that use pedicle screws. We also believe that the Illico System limits trauma to the tissue surrounding the location of the surgery, which is designed to enable patients to recover faster.

Guided Lumbar Interbody Fusion System, or GLIF System and ARC Portal

Our GLIF System and ARC Portal is a unique access system that is designed to allow surgeons to perform a minimally invasive procedure from multiple surgical planes without the need for a second incision or repositioning of the patient. The GLIF System is intended to reduce the length of the procedure, reduce trauma to the patient and reduce the post-surgery recovery period.

Proprietary Packaging Systems

Vacuum Infusion Packaging (VIP) System

The VIP system is a packaging and fluid delivery system that allows for fast and efficient infusion of the surgeon s choice of hydration fluid. With the use of a vacuum, the VIP system allows for enhanced infusion of fluids into either our ProFuse or structural allograft products. This rapid hydration system is designed to reduce the length of a surgical procedure by allowing the surgeon to significantly reduce the amount of time required for hydration.

Wound Barriers

AmnioShield

Pursuant to our agreement with AFCell, we have the right to market and sell our privately labeled AmnioShield product, an in-vivo wound covering derived from the amniotic membrane that delivers a defensive barrier at the site where it is placed.

Our Products In Development (None of the following products are available for sale in the U.S.)

We intend to continue to expand our current product offering as well as develop complementary systems and products. Products that we are currently developing include the following:

Treatments for Vertebral Compression Fractures

OsseoFix

Our OsseoFix system provides a solution for VCF indications. The OsseoFix implant is an expandable titanium cage that is designed to be implanted minimally invasively into a vertebral body to treat a VCF. The OsseoFix system is designed to overcome one of the primary complications of kyphoplasty and vertebroplasty, which is the potential risk of extravasation of PMMA bone cement into the spinal canal or venous system. In addition, the OsseoFix system is designed to use less bone cement than current standards of care, which we believe carries a benefit to the patient. The OsseoFix System is undergoing clinical testing in the U.S. in connection with its 510(k) application.

Table of Contents

Treatments for Patients with Poor Bone Quality

OsseoScrew

The OsseoScrew is an innovative pedicle screw system that is designed to provide a solution for patients who have poor bone density. The OsseoScrew is designed to be implanted into the pedicle and then expanded after implementation to achieve increased screw fixation in bone with poor density. We believe that the OsseoScrew will help us reach our goal of providing solutions targeted at serving the needs of the spine surgeon and the aging spinal segment of the marketplace. This product has been submitted to the FDA for 510(k) clearance.

Cervico/Thoracic Occipital Plate

Posterior Occipital Plate

We are developing an occipital plate to be used with a posterior cervico/thoracic fixation system to provide additional stabilization to the atlanto/cervicol and crainial areas during a posterior fixation procedure. We have developed prototypes of this product.

Stand-Alone Anterior Plate and Spacer

Stand-Alone Anterior Lumbar Plate System, or ALIF Plate System

Our stand-alone ALIF Plate System is designed to be used in conjunction with a spacer, and is intended to offer comparable stabilization to pedicle screw and rod systems. Our ALIF Plate System is designed to provide surgeons with the option of performing a single anterior procedure without having the need for a complementary posterior procedure. The ALIF Plate System is designed to be anatomically shaped and have a low profile, which should minimize the risk of irritation or damage to the adjacent tissue. We have developed prototypes of this product.

Solus Stand-Alone Anterior Lumbar Spacer

Our Solus stand-alone anterior spinal spacer is intended to offer increased stabilization as compared to one of our Novel spacers. This spacer contains a proprietary locking mechanism to prevent migration of the implant after insertion. This product has been submitted to the FDA for 510(k) clearance.

Treatments for Lumbar Spinal Stenosis

Helifix/Helifuse

Our Helifix and Helifuse products are designed to be minimally invasively inserted into a patient s spinous process to treat lumbar spinal stenosis. Helifix is a non-fusion interspinous device designed to provide relief from lumbar spinal stenosis by providing flexion in the posterior elements. Helifuse is similar in design to Helifix, but will be a fusion device that may be combined with percutaneous spinal fixation. We have developed prototypes of these products.

Interspinous Process Plating System

Our interspinous process plating system is designed to use a plating system on the interspinous process to reduce nerve compression patients with spinal stenosis. We have developed prototypes of this product.

Stem Cell-Based Products

ELA Stem Cell

Pursuant to our agreement with Parcell Spine, LLC, an affiliate of Parcell Laboratories, Alphatec Spine has the exclusive right to market and sell the ELA stem cell, a unique adult stem cell that possesses self-renewal and bone regenerative capabilities, for use in the treatment of spinal disorders.

11

Table of Contents

Sales and Marketing

Our sales force consists of over 90 independent distributors, which we believe employ approximately 280 agents dedicated to selling our products in the U.S., 16 direct sales representatives and sales management employees and executives in the U.S., 24 direct sales representatives and sales management employees and executives in Japan, two direct sales representatives in Hong Kong, three sales agents in Europe, and an executive-level General Manager that oversees all European operations. In general, in the U.S., although surgeons in the U.S. make the ultimate decision to use our products, we bill the hospitals for the products that are used and pay commissions to our independent distributors and direct sales agents based on payments received from the hospital. In general, outside of the U.S. we sell products directly to distributors, and the distributors resell the products to the hospital. We compensate our sales management employees and sales executives through salaries and incentive bonuses based on performance measures. We select our sales force based on their expertise in selling spinal devices, reputation within the surgeon community, geographical coverage and established sales network. Increasingly, we contractually require our distributors to exclusively sell our products both within and outside of their allocated sales territory. We offer each of our independent distributors and direct sales representatives sales and product training programs. We market our products at various industry conferences, organized surgical training courses, and in industry trade journals and periodicals. We plan on expanding our global sales coverage through the use of additional distributors and direct sales representatives in order to support continued adoption of our products by new surgeons and increased use of our products by surgeons who currently use our products.

In Japan, our sales and marketing activities are conducted through our subsidiary Alphatec Pacific, Inc., or Alphatec Pacific. We believe that having a direct presence in Japan gives us greater control over the introduction process of our products into the Japanese market and allows us to be more responsive to our Japanese customers. Alphatec Pacific has 27 sales and marketing employees as of December 31, 2009. We intend to continue to increase our direct sales force at Alphatec Pacific and also increase the emphasis that Alphatec Pacific places on selling our spinal disorder solutions to the large and growing Asian market. In Hong Kong, our sales and marketing activities are conducted through our subsidiary Milverton Ltd., or Milverton. Milverton has two direct sales representatives that support its sales efforts.

Surgeon Training and Education

We devote significant resources to train and educate surgeons in the proper use of our implants, instrumentation, and surgical access technologies. We believe that one of the most effective ways to introduce and build market demand for our products is by training and educating spine surgeons, independent distributors, and direct sales representatives in the use of our products. We believe that surgeons, independent distributors, and direct sales representatives will become exposed to the merits and distinguishing features of our products through our training and education programs, and in doing so, will increase the use and promotion of our products. In addition, we believe surgeons using our products that were trained by us will be instrumental in generating valuable clinical data, providing feedback and demonstrating the benefits of our products to the medical community.

Research and Development

Our research and development department has extensive experience in developing products to treat spine pathologies. Our research and development department works closely with our Scientific Advisory Board and surgeon collaborators to design products that are intended to improve patient care, simplify surgical techniques and reduce overall costs. We are focusing our research and development efforts in two major strategic areas. First, we focus on continually enhancing and upgrading our current product portfolio and supplementing it with new products where appropriate. Second, we devote significant resources to developing complementary products and unique technologies to create new solutions to address spinal pathologies that affect the aging spine. Our goal is to become the market leader in providing solutions for the aging spine by developing products that have superior efficacy for patients who suffer from poor bone density, a VCF, adult deformity, or spinal stenosis. In

Table of Contents

order to further promote this strategy, we are focused on converting these research and development programs into commercially viable products that incorporate minimally invasive access techniques and biologic solutions to improve patient outcomes across all of our product lines.

Manufacture and Supply

We conduct our manufacturing operations at our facilities in Carlsbad, California. We manufacture the majority of our implants in-house. Certain of our implants and a significant amount of our instrumentation are purchased from third parties. We believe that the in-house production of our implants maximizes efficiency, reduces product development time, simplifies production scheduling, reduces inventory backlogs and is more responsive to the changing needs of surgeons. Our facilities include distinct areas dedicated to the machinery, tooling, quality control, cleaning and labeling of our products. Additionally, we have an advanced manufacturing group that includes design engineering and manufacturing personnel. The advanced manufacturing group is dedicated to providing rapid prototyping and innovative custom instrumentation for our research and development programs and our surgeon customers. Occasionally we enter into distribution agreements, pursuant to which we distribute products manufactured by a third party either under our own private label or under third-party trademarks. Following the receipt of products or product components that we receive from third parties, we conduct inspection, quality control, packaging and labeling, as needed, at our manufacturing facilities.

We devote significant time and attention to ensure that all of our products are safe, effective, adhere to all applicable regulations and are of the highest quality. An established and comprehensive quality system drives our focus from the initial translation of surgeon needs into design specifications through an exhaustive series of quality control checks that are performed through the purchasing, production, and packaging of our products. We record the complete production history for every product, ensuring full traceability from the raw material stage through the delivery of the product into the marketplace. The raw materials used in the manufacture of our products are principally titanium, titanium alloys, stainless steel, allograft and PEEK. Invibio is one of a limited number of companies that is currently approved in the U.S. to distribute PEEK for use in implantable devices. In October 2004, we entered into an exclusive supply agreement with Invibio, pursuant to which we agreed to purchase our entire supply of medical quality PEEK in the U.S. for use in our Novel implants from Invibio. As consideration for the PEEK materials, we pay Invibio an amount that depends on the weight or the length of either the raw material or stock product that Invibio processes for us. The cost of the PEEK may increase over time, but the price increase is capped at a certain percentage annually. Under the terms of the agreement, we are restricted from selling PEEK to third parties, except when it is incorporated into our products, and we are not authorized to alter the chemical structure of the PEEK. The term of the supply agreement is through October 2014. Either we or Invibio may terminate the supply agreement for an uncured material breach of the agreement.

With the exception of PEEK and allograft-based products, none of our raw material requirements is limited to any significant extent by critical supply. We are subject to the risk that Invibio will fail to supply PEEK in adequate amounts for our needs on a timely basis. In addition, because our allograft-based products are processed from human tissue, maintaining a steady supply can sometimes be challenging.

Our manufacturing operations and those of the third-party manufacturers we use on a limited basis are subject to extensive regulation by the FDA under its quality systems regulations, or QSRs, and other device-related or tissue-related good manufacturing practice regulations, state regulations, such as the regulations promulgated by the California Department of Health Services, and under similar requirements of regulatory authorities in different states and foreign countries. For tissue products, we are FDA-registered and licensed in the states of California, New York and Florida, the only states that require licenses. For our implants and instruments, we are FDA-registered, California-licensed and International Organization for Standardization, or ISO, certified. Our facility and the facilities of the third-party manufacturers we use on a limited basis are subject to periodic unannounced inspections by regulatory authorities, and may undergo compliance inspections conducted by the FDA and corresponding state and foreign agencies. The FDA inspected our Carlsbad,

Table of Contents

California facilities in November 2009, and non-compliance items were cited on an FDA Form 483 that we received following the inspection. Following receipt of the Form 483, we submitted a formal response in which we indicated the steps that we had taken to correct the noted deficiencies. The FDA is currently reviewing such responses and performing follow-up inspections related to the Form 483 and the responses.

An additional FDA inspection was conducted in January 2010, and non-compliance items were cited on an FDA Form 483 that we received following the inspection. Following receipt of the Form 483, we submitted a formal response in which we indicated the steps that we had taken to correct the noted deficiencies. The FDA is currently reviewing such responses and performing follow-up inspections related to the Form 483 and the responses.

Competition

Although we believe that our current broad product portfolio and development pipeline is differentiated and has numerous competitive advantages, the spinal implant industry is highly competitive, subject to rapid technological change, and significantly affected by new product introductions. We believe that the principal competitive factors in our market include:

- improved outcomes for spine pathology procedures;
- ease of use and reliability;
- effective sales, marketing and distribution;
- technical leadership and superiority;
- surgeon services, such as training and education;
- responsiveness and ability to develop unique products that addresses the needs of surgeons;
- manufacturing capabilities;
- acceptance by spine surgeons;
- product price and qualification for reimbursement; and
- speed to market.

Our currently marketed products are, and any future products we commercialize will be, subject to intense competition and we are aware of several companies that compete in our current and future product areas. We believe that our most significant competitors are Medtronic Sofamor Danek, DePuy Spine, Stryker, Biomet, NuVasive, Zimmer, Synthes, Orthofix, Globus, and others, many of which have substantially greater financial resources than we do. In addition, these companies may have more established distribution networks, entrenched relationships with physicians, and greater experience in developing, launching, marketing, distributing and selling products.

Our competitors include providers of non-operative therapies for spine disorder conditions. While these non-operative treatments are considered to be an alternative to surgery, surgery is used in the event that non-operative treatments are unsuccessful. To date, these non-operative

treatments have not caused a reduction in the demand for surgical treatment of spinal disorders.

Intellectual Property

We rely on a combination of patent, trademark, copyright, trade secret and other intellectual property laws, nondisclosure agreements, proprietary information ownership agreements and other measures to protect our intellectual property rights. We believe that in order to have a competitive advantage, we must develop, maintain and enforce the proprietary aspects of our technologies. We require our employees, consultants, co-developers, distributors and advisors to execute agreements governing the ownership of proprietary information and use and disclosure of confidential information in connection with their employment, consulting, co-development, distribution or advisory relationships with us. These agreements require these people and entities to agree to disclose and assign to us all inventions that were conceived on our behalf or which relate to our property or business and to keep our confidential information confidential and only use such confidential information in connection with our business.

Table of Contents

Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. In addition, our competitors may independently develop similar technologies. Further, as described in Item 3 Legal Proceedings, others may attempt to obtain royalties based on the net sales of our products, which may impact our revenues. We may lose market share to our competitors if we fail to protect our intellectual property rights.

Patents

As of December 31, 2009, we owned 25 issued U.S. patents, 16 issued foreign patents and 65 pending patent applications, including 28 pending U.S. applications, 16 pending international applications (PCT) and 21 pending foreign national applications. In addition, as of December 31, 2009 we have licensed or otherwise acquired rights to 33 U.S. patents, and patent pending applications. We own multiple patents relating to unique aspects and improvements for several of our products. We do not believe that the expiration of any single patent is likely to significantly affect our intellectual property position.

The medical device industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. Patent litigation can involve complex factual and legal questions and its outcome is uncertain. Any claim relating to infringement of patents that is successfully asserted against us may require us to pay substantial damages (including treble damages if our infringement is found to be willful) or may require us to remove our infringing product from the market. Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations. Our success will also depend in part on our not infringing patents issued to others, including our competitors and potential competitors. If our products are found to infringe the patents of others, our development, manufacture and sale of such potential products could be severely restricted or prohibited. In addition, our competitors may independently develop similar technologies. We may lose market share to our competitors if we fail to protect our intellectual property rights.

As the number of entrants into our market increases, the possibility of a patent infringement claim against us grows. While we make an effort to ensure that our products do not infringe other parties patents and proprietary rights, our products and methods may be covered by U.S. or foreign patents held by our competitors. In addition, our competitors may assert that future products we may market infringe their patents.

A patent infringement suit brought against us or any strategic partners, co-developers or licensors may force us or strategic partners, co-developers or licensors to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a third party s intellectual property, unless that party grants us or strategic partners, co-developers or licensors rights to use its intellectual property. In such cases, we may be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all. Even if strategic partners, co-developers, licensors or we were able to obtain rights to the third party s intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize some of our potential products or may have to cease some of our business operations as a result of patent infringement claims, which could severely harm our business financial condition and results of operations.

License and Supply Agreements

In 2007, as part of our product development strategy, we began entering into agreements with third parties that enable us to develop, commercialize and/or distribute products for the treatment of spinal disorders that are based upon technology owned by such third parties.

Agreements Executed in 2007

Bottom-Manufactured Pedicle Screw License Agreement

In April 2007, Alphatec Spine entered into a license agreement with Roger P. Jackson, M.D. pursuant to which Alphatec Spine licensed rights to develop and commercialize certain polyaxial screw, helical flange, and

Table of Contents

proprietary instrumentation technology designed by Dr. Jackson. The polyaxial screw technology licensed by Alphatec Spine incorporates a bottom-loaded cam-capture manufacturing process and certain other proprietary technologies. Pursuant to the agreements Alphatec Spine also acquired rights to manufacture and sell a set screw that incorporates Dr. Jackson s proprietary helical flange technology. The agreement provides that Alphatec Spine will pay royalties on net sales of products incorporating the licensed technology with quarterly payments of minimum royalties. The term of the license agreement is for as long as Alphatec Spine continues to sell products that contain the licensed technology. Each party has the right to terminate the license agreement for material uncured breach by the other party.

OsseoFix License Agreement

In September 2007, Alphatec Spine entered into an exclusive license agreement with Stout Medical Group LP, or Stout, that provides Alphatec Spine with an exclusive worldwide license to develop and commercialize a vertebral compression fracture fixation system called the OsseoFix system. The OsseoFix implant is an expandable titanium cage that is designed to be implanted minimally invasively into a vertebral body to treat compression fractures of the vertebral body. The financial terms of the agreement include an up-front license fee payment to be made by Alphatec Spine to Stout upon Stout s delivery of certain deliverables related to the prototype of the OsseoFix; design, regulatory and sales milestone payments that began to be achieved and paid by Alphatec Spine to Stout in 2008; and a royalty payment based on net sales of the OsseoFix product with minimum annual royalties beginning in 2009. The term of the license agreement is 20 years after the first commercial sale of a product containing the licensed technology which occurred in 2008. Alphatec Spine has the right to terminate the license agreement for convenience upon 90 days prior written notice. Each party has the right to terminate the license agreement for material uncured breach by the other party.

On April 16, 2009, Alphatec Spine and Stout entered into an amendment to the license agreement. Under the original license agreement, our minimum royalty obligation began in 2009. Pursuant to the amended license agreement, the minimum royalty obligation is suspended until a licensed product obtains regulatory approval from the FDA. In addition, under the terms of the amended license agreement, Stout has the ability to terminate the license agreement if we are not using commercially reasonably efforts to obtain regulatory approval to market and sell a licensed product; provided that we have the right to delay such termination in exchange for making certain payments to Stout. If, during the time period when such payments are made, we were to make a regulatory filing for the marketing and sale of a licensed product, such termination will be null and void. Pursuant to the amended license agreement, Stout is entitled to retain all up-front payments that had been previously paid to it. The other material terms to the license agreement were not changed.

GLIF License Agreement

In September 2007, Alphatec Spine entered into an exclusive license agreement with JGMG Bengochea, LLC, or JGMG, which provided Alphatec Spine with an exclusive worldwide license to develop and commercialize JGMG s guided lumbar interbody fusion system, or the GLIF system. The GLIF system is designed to allow surgeons to perform a 360-degree minimally invasive procedure without the need for a second incision or repositioning of the patient, which is intended to reduce the length of the procedure, reduce the trauma to the patient and reduce the post-surgery recovery period. The financial terms of the agreement include an issuance of our common stock to JGMG, a portion of which common stock is subject to a five-year lockup period, with automatic waivers of such lockup to occur upon the achievement of certain milestone events; design, regulatory and sales milestone payments that could begin to be achieved and paid by Alphatec Spine to JGMG in 2009; and a royalty payment based on net sales of licensed products with minimum annual royalties beginning in 2010. The term of the license agreement on a country-by-country basis and on a product-by-product basis with respect to each licensed patent is the longer of (i) the last patent to expire that is contained in a licensed product, or (ii) 20 years. Alphatec Spine has the right to terminate the license agreement for convenience upon 30 days prior written notice. Each party has the right to terminate the license agreement for material uncured breach by the other party.

Table of Contents

OsseoScrew License Agreement

In December 2007, Alphatec Spine entered into an exclusive license agreement with Progressive Spinal Technologies LLC, or PST, that provides Alphatec Spine with an exclusive worldwide license to develop and commercialize PST s proprietary intellectual property related to a pedicle screw designed to be used for patients with osteopenic bone or poor bone density. The technology consists of an expandable titanium pedicle screw that is designed to be implanted into the pedicle and then expanded in order to achieve increased purchase within the pedicle. This solution is designed for patients with osteopenic bone or poor bone density who are not viable candidates for procedures that use the current standard pedicle screw. The parties amended certain financial terms of this agreement in January 2009. The financial terms of the agreement include a cash payment payable following the execution of the agreement; development and sales milestone payments in cash and our common stock that could begin to be achieved and paid in 2009; and a royalty payment based on net sales of licensed products with minimum annual royalties beginning in 2009. The license agreement contains a provision that limits the number of shares that may be issued pursuant to the license agreement to less than 19.99% of our issued and outstanding common stock. The term of the license agreement is 20 years after the first commercial sale of a product containing the licensed technology. Alphatec Spine has the right to terminate the license agreement for convenience upon 90 days prior written notice. Each party has the right to terminate the license agreement for material uncured breach by the other party.

In January 2008, we entered into the first amendment to the OsseoScrew License Agreement, which amended and restated in its entirety Section 1.10 of the OsseoScrew License Agreement which contains the definition of the term Licensed Field, and added a new section 4.4.4 to the Agreement which limits the number of shares that may be issued pursuant to the license agreement to less than 19.99% of our issued and outstanding common stock.

In January 2009, we entered into the second amendment to the OsseoScrew License Agreement, which amended and restated Section 4.1.2 of the OsseoScrew License Agreement related to the milestone payments due under the license agreement.

In December 2009, we entered into a third amendment to the OsseoScrew License Agreement which provides us with an exclusive worldwide license to develop and commercialize PST s proprietary intellectual property related to an expanding pedicle screw with increased pull-out strength. Under the Amended and Restated OsseoScrew License Agreement, the timing and payment of a $0.5 million development and sales milestone payment and royalty payment have been adjusted. The Company recorded a charge for in-process research and development, or IPR&D, of $0.5 million in the fourth quarter of 2009 upon completion of an animal study, as the technological feasibility associated with the IPR&D since the final prototype of the device had not been established and no alternative future use exists. The timing of the royalty payments based on net sales of licensed products has been amended and minimum annual royalties begin in 2010 instead of 2009.

Agreements Executed in 2008

Expandable Interbody Device License Agreement

On March 10, 2008, Alphatec Spine and Stout entered into a license agreement, the Expandable VBR License Agreement, which provides Alphatec Spine with a worldwide license to develop and commercialize Stout s proprietary intellectual property related to an expandable interbody/vertebral body replacement device. The licensed technology relate to an expandable metallic device that is designed to be implanted into the disc space and then expanded during spine surgery. The financial terms of the Expandable VBR License Agreement include: (i) a cash payment payable following the execution of the Expandable VBR License Agreement; (ii) the issuance of shares of our common stock following the execution of the Expandable VBR License Agreement; (iii) development and sales milestone payments in cash and our common stock that could begin to be achieved and paid in 2009; and (iv) a royalty payment based on net sales of licensed products with minimum annual royalties beginning in 2009.

Table of Contents

On April 15, 2009, we entered into an amendment to the Expandable VBR License Agreement. Under the Amended and Restated License Agreement, the timing of the minimum royalty payments has been adjusted and Stout s ability to terminate the Amended and Restated License Agreement was revised. Under the original license agreement, the Company s minimum royalty obligation began in 2010. Pursuant to the Amended and Restated License Agreement, if we are required to initiate a clinical trial to obtain clearance from the FDA for a licensed product, the minimum royalty obligation is suspended until such licensed product obtains regulatory approval. In addition, under the terms of the Amended and Restated License Agreement, Stout has the ability to terminate the Amended and Restated License Agreement if we have not filed for regulatory approval to market and sell a licensed product within an allotted time period; provided that we have the right to delay such termination in exchange for making certain payments to Stout. If, during the time period when such payments are made, we were to make a regulatory filing for the marketing and sale of a licensed product, such termination would be null and void. Pursuant to the Amended and Restated License Agreement, Stout is entitled to retain all up-front payments that had been previously paid to it. The other material terms to the original license agreement were not changed.

Additionally, effective March 31, 2009 we entered into an amendment to the developmental consulting agreement that the parties had entered into in March 2008 pursuant to which Stout agreed to provide consulting services related to the development of an expandable interbody/vertebral body replacement device. Under the Amended and Restated Consulting Agreement, the timing and amount of consulting fees has been adjusted. Under the original consulting agreement, the Company was obligated to make ten monthly payments of $50,000 to compensate Stout for providing development services. As of the effective date of the Amended and Restated Consulting Agreement, we had paid Stout $0.4 million of such consulting fees, and had expensed $0.2 million of such fees. Pursuant to the Amended and Restated Consulting Agreement, Stout returned such $0.4 million to us in April 2009. The terms of the Amended and Restated Consulting Agreement call for us to pay consulting fees of $20,000 per month for 12 months beginning in July 2009, provided that the agreement is in full force and effect. Pursuant to the Amended and Restated Consulting Agreement, Stout is entitled to retain the 101,944 shares of our restricted stock that we had previously issued to Stout. Such restricted stock would become vested upon the attainment of a development milestone. The other material terms to the original consulting agreement were not changed.

License Agreement Related to Polyaxial Screw Technology

In May 2008, in connection with the settlement of litigation, Alphatec Spine entered into a license with Depuy Spine, Inc. and Biedermann Motech GmbH, pursuant to which Alphatec Spine obtained a license to the intellectual property rights related to polyaxial pedicle screws that are contained in a patent owned by Biederman and exclusively licensed to Depuy. The financial terms of the license agreement include an ongoing royalty payable upon future net sales of licensed products through the life of the patent, which is scheduled to expire in 2010.

Agreements Executed in 2009

Stand-Alone Spacer Assignment Agreement

In January 2009, Alphatec Spine entered into an assignment agreement, the Patent and Technology Assignment Agreement, with Spine Vision, S.A, or Spine Vision, that provides Alphatec Spine with the rights, title and interest in and to certain patents and technology of Spine Vision that relate to a stand-alone interbody device. The financial terms of the Patent and Technology Assignment Agreement include: (i) an up front fee of $500,000; and (ii) a royalty payment.

Stand-Alone Anterior Lumbar Interbody Fusion Device License Agreement

In June 2009, we entered into a Cross License Agreement, or the ISI License Agreement, with International Spinal Innovations, LLC, or ISI, that provides us with a worldwide license to develop and commercialize ISI s

Table of Contents

proprietary intellectual property related to a stand-alone anterior lumbar interbody fusion device. The financial terms of the ISI License Agreement include: (i) the issuance of 260,000 shares of the Company s common stock following the execution of the ISI License Agreement; (ii) sales milestone payments in cash that could begin to be achieved and paid in 2011; and (iii) a royalty payment based on net sales of licensed products with minimum annual royalties beginning in the year after the first commercial sale of a licensed product.

Supply Agreement with AFCell

In February 2009 Alphatec Spine entered into a supply and distribution agreement with AFCell, or the AFCell Agreement, which provides Alphatec Spine with the right to market and sell our privately labeled AmnioShield product; an in vivo wound covering derived from the amniotic membrane that delivers a defensive barrier at the site of surgery. The financial terms of the AFCell Agreement include an initial payment to secure semi-exclusive distribution rights.

Helifuse/Helifix License Agreement

In February 2009, Alphatec Spine entered into a License Agreement with Helix Point, LLC, the Helifuse/Helifix License Agreement, that provides Alphatec Spine with a worldwide license (excluding the People s Republic of China) to develop and commercialize Helix Point s proprietary intellectual property related to a device for the treatment of lumbar spinal stenosis. The financial terms of the Helifuse/Helifix License Agreement include: (i) a cash payment of $0.2 million payable following the execution of the Helifuse/Helifix License Agreement; (ii) the issuance of $0.4 million of shares of our common stock following the execution of the Helifuse/Helifix License Agreement; (iii) development and sales milestone payments in cash and our common stock that could begin to be achieved and paid in 2010; and (iv) a royalty payment based on net sales of licensed products with minimum annual royalties beginning in the year after the first commercial sale of a licensed product.

Supply Agreement with ETEX Corporation

In October 2009, Alphatec Spine entered into a supply and distribution agreement with ETEX Corporation, or the ETEX Agreement, which provides Alphatec Spine with the rights to market and sell ETEX s EquivaBone and CarriGen products in the U.S and Europe, excluding Spain. The financial terms of the ETEX Agreement include: (i) minimum purchase commitments during the first, second and third year following execution of the agreement of $2.3 million, $3.4 million and $4.5 million, respectively.

Agreements Executed in 2010

Distribution Agreement with Parcell Spine, LLC

In January 2010, we entered into an exclusive distribution agreement with Parcell Spine, LLC, or the Parcell Agreement, that provides Alphatec with an exclusive right to distribute Parcell Spine s proprietary adult stem cells for the treatment of spinal disorders. The financial terms of the Parcell Agreement include: (i) a cash payment of $0.5 million payable following the execution of the Parcell Agreement; (ii) a milestone payment consisting of $1.0 million in cash and the issuance of $1.0 million shares of our common stock following the successful completion of the pre-clinical study; and (iv) sales milestone payments in cash and our common stock.

Trademarks

As of December 31, 2009, we have U.S. trademark registrations corresponding to the following marks: Alpha symbol design/logo, Alphagraft, Alphatec, Alphatec Spine, Inc. logo, Alphatec Spine design/logo, Chorus, Connect, Corlok, Cortek, C design, Cortek design/logo, Deltaloc, Dovetome, Duet, Illico, Novel, Osteocor, Polylok, Solanas, Solo, Solutions for the Aging Spine, Tamarack, Trestle, Venta and Zodiac. In addition, as of

Table of Contents

December 31, 2009, we have 13 U.S. trademark applications pending that correspond to the following marks: AmnioShield, Aging Spine Center design/logo, Alphagraft Profuse, ARC and design/logo, Deltaloc RVL, Hēlifix, Hēlifuse, Motion In Fusion, OsseoFix, OsseoFix+, OsseoScrew, OsseoSleeve and Solus.

Government Regulation

Our products are medical devices subject to extensive regulation by the FDA and other U.S. federal and state regulatory bodies and comparable authorities in other countries. To ensure that medical products distributed domestically and internationally are safe and effective for their intended use, FDA and comparable authorities in other countries have imposed regulations that govern, among other things, the following activities that we or our partners perform and will continue to perform:

- product design and development;
- product testing;
- product manufacturing;
- product labeling;
- product storage;
- premarket clearance or approval;
- advertising and promotion;
- product marketing, sales and distribution; and
- post-market surveillance, including reporting deaths or serious injuries related to products and certain product malfunctions.

FDA s Premarket Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the U.S. will require either prior 510(k) clearance or approval of a premarket approval application (PMA). Both 510(k) and PMA pathways are described below. The FDA classifies medical devices into one of three classes. Devices deemed to pose lower risk are placed in either Class I or II, which in many cases requires the manufacturer to submit to the FDA a premarket notification or 510(k) submission. This process is known as requesting 510(k) clearance. Some low risk devices are exempt from this requirement. Devices deemed by the FDA to pose the greatest risk, such as many life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a legally marketable device for which a PMA was not required, are placed in Class III, requiring premarket approval. A new medical device for which there is no substantially equivalent device is automatically designated a Class III device. Depending on the nature of the new device, the manufacturer may ask the FDA to make a risk-based determination of the new device and reclassify it in Class I or Class II. This process is referred to as the *de novo* process. If the FDA agrees, the new device will be reassigned to the appropriate other class. If it does not agree, the manufacturer will have to submit a PMA. Our current commercial products are Class II devices marketed under FDA 510(k) premarket clearance. Both premarket clearance and premarket approval applications are subject to the payment of user fees, paid at the time of submission for FDA review.

510(k) Clearance Pathway

To obtain 510(k) clearance, we must submit a premarket notification demonstrating that the proposed device is substantially equivalent to a device legally marketed in the U.S. for which a PMA was not required. The FDA s goal is to review and act on each 510(k) within 90 days of submission, but it may take longer based on requests for additional information by the FDA. Most 510(k)s do not require supporting data from clinical trials, but the FDA may request such data.

Table of Contents

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a new or major change in its intended use, will require a new 510(k) clearance or, depending on the modification, require premarket approval. The FDA requires each manufacturer to determine whether the proposed change requires submission of a 510(k), or a premarket approval, but the FDA can review any such decision and can disagree with a manufacturer s determination. If the FDA disagrees with a manufacturer s determination, the FDA can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or premarket approval is obtained. If the FDA requires us to seek 510(k) clearance or premarket approval for any modifications to a previously cleared product, we may be required to cease marketing or recall the modified device until we obtain this clearance or approval. Also, in these circumstances, we may be subject to significant regulatory fines or penalties. We have made and plan to continue to make additional product enhancements to our products and we will consider on a case-by-case basis whether a new 510(k) or PMA is necessary.

Premarket Approval Pathway

A premarket approval application must be submitted if the device cannot be cleared through the 510(k) process. The premarket approval application process is generally more costly and time consuming than the 510(k) process. A premarket approval application must be supported by extensive data including, but not limited to, technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to the FDA s satisfaction the safety and effectiveness of the device for its intended use.

After a premarket approval application is sufficiently complete, the FDA will accept the application and begin an in-depth review of the submitted information. By statute, the FDA has 180 days to review the accepted application, although, generally, review of the application can take between one and three years. During this review period, the FDA may request additional information or clarification of information already provided. Also during the review period, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. In addition, the FDA will conduct a preapproval inspection of the manufacturing facility to ensure compliance with quality system regulations. New premarket approval applications or premarket approval application supplements are required prior to marketing for product modifications that affect the safety and efficacy of the device. Premarket approval supplements often require submission of the same type of information as a premarket approval application, except that the supplement is limited to information needed to support any changes from the device covered by the original premarket approval application, and may not require clinical data or the convening of an advisory panel. We were not required to submit a PMA for any of our currently marketed products, but devices in development may require a PMA.

Clinical Trials

Clinical trials are usually required to support a PMA and are sometimes required for a 510(k). In the U.S., if the device is determined to present a significant risk, the manufacturer may not begin a clinical trial until it submits an investigational device exemption, or IDE. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. These clinical trials are also subject to the review, approval and oversight of an institutional review board, or IRB, at each clinical trial site. The clinical trials must be conducted in accordance with FDA s IDE regulations and international regulations concerning human subject protection. A clinical trial may be suspended by FDA or the IRB at any time for various reasons, including a belief that the risks to the study participants outweigh the benefits of participation in the study. Even if a study is completed, the results of a clinical trial may not demonstrate the safety and efficacy of a device, or may be equivocal or otherwise not be sufficient to obtain approval of a device.

Table of Contents

Pervasive and Continuing FDA Regulation

After a device is placed on the market, numerous FDA and other regulatory requirements continue to apply. These include:

- quality system regulations, which requires manufacturers, including third-party contract manufacturers, to follow stringent design, testing, control, documentation, and other quality assurance controls, during all aspects of the manufacturing process and to maintain and investigate complaints;
- labeling regulations, and FDA prohibitions against the promotion of products for uncleared or unapproved off-label uses;
- medical device reporting obligations, which require that manufacturers submit reports to the FDA of adverse events; and
- other post-market surveillance requirements, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

We and our third-party manufacturers must register with the FDA as medical device manufacturers and must obtain all necessary state permits or licenses to operate our business. As manufacturers, we and our third-party manufacturers are subject to announced and unannounced inspections by the FDA to determine our compliance with quality system and other regulations. We believe that we are in substantial compliance with quality system regulation and other regulations.

International Device Regulation

International sales of medical devices are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval, and the requirements may differ.

Japan

In Japan, certain medical devices classified as highly controlled must be approved prior to importation and commercial sale by the Ministry of Health, Labour and Welfare, or MHLW, pursuant to the Japanese Pharmaceutical Affairs Law. Manufacturers of medical devices outside of Japan which do not operate through a Japanese entity are required to appoint a contractually bound authorized representative to directly submit an application for device approval to the MHLW. The MHLW evaluates each device for safety and efficacy and may require that the product be tested in Japanese laboratories. After a device is approved for importation and commercial sale in Japan, the MHLW continues to monitor sales of approved products for compliance. Failure to comply with applicable regulatory requirements can result in enforcement action by the MHLW, including administrative inspections and recommendations; recall or seizure of products; operating restrictions, including partial suspension or total shut down of marketing activity in Japan; withdrawal of product approvals; and criminal prosecution by a public prosecutor, including criminal fines and/or imprisonment.

Our devices fall into the highly controlled medical device category. Currently, MHLW review times for our device applications range from one year if clinical data is not required, to up to two years if clinical data is required. The review times for our products are expected to be reduced to six months and one year, respectively, and we expect application fees to be reduced as new approval screening standards are established by the MHLW, which has delegated responsibility for these review functions to the Japanese Pharmaceuticals and Medical Devices Agency, for various medical device categories. Currently, the MHLW is working with trade organizations such as AdvaMed, and MHLW may adopt similar standards.

Table of Contents

European Union

The European Union, which consists of 27 of the major countries in Europe, has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling, and adverse event reporting for medical devices. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking and, accordingly, can be commercially distributed throughout the member states of the European Union, and other countries that comply with or mirror these directives. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a Notified Body, an independent and neutral institution appointed to conduct conformity assessment. This third-party assessment consists of an audit of the manufacturer s quality system and technical review and testing of the manufacturer s product. An assessment by a Notified Body in one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. In addition, compliance with voluntary harmonized standards including ISO 13845 issued by the International Organization for Standards establishes the presumption of conformity with the essential requirements for a CE mark. In October 2007, we were certified by Intertek Semko, a Notified Body, under the European Union Medical Device Directive allowing the CE conformity marking to be applied.

Environmental Matters

Our facilities and operations are subject to extensive federal, state, and local environmental and occupational health and safety laws and regulations. These laws and regulations govern, among other things, air emissions; wastewater discharges; the generation, storage, handling, use and transportation of hazardous materials; the handling and disposal of hazardous wastes; the cleanup of contamination; and the health and safety of our employees. Under such laws and regulations, we are required to obtain permits from governmental authorities for some of our operations. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators. We could also be held responsible for costs and damages arising from any contamination at our past or present facilities or at third-party waste disposal sites. We cannot completely eliminate the risk of contamination or injury resulting from hazardous materials, and we may incur material liability as a result of any contamination or injury.

Compliance with Fraud and Abuse Laws and Other Applicable Statutes

We may directly or indirectly be subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws. In particular, the federal healthcare program anti-kickback statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service, for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. The anti-kickback statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. In implementing the statute, the Office of Inspector General, or OIG, has issued a series of regulations, known as the safe harbors, which began in July 1991. These safe harbors set forth provisions that, in circumstances where all the applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the anti-kickback statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy all requirements of an applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the OIG. Penalties for violations of the federal anti-kickback statute include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. Many states have anti-kickback laws that are similar to the federal law, including penalties, fines, sanctions for violations, and exclusions from state or commercial programs.

Table of Contents

The federal ban on physician self-referrals, commonly known as the Stark Law, prohibits, subject to certain exceptions, physician referrals of Medicare and Medicaid patients to an entity providing certain designated health services if the physician or an immediate family member of the physician has any financial relationship with the entity. Penalties for violating the Stark Law include fines, civil monetary penalties and possible exclusion from federal healthcare programs. In addition to the Stark Law, many states have their own self-referral laws. Often, these laws closely follow the language of the federal law, although they do not always have the same scope, exceptions or safe harbors.

We have entered into various service agreements with some surgeons, including some who make clinical decisions to use our products. In addition, some of our referring surgeons own our stock, which they either purchased in an arms length transaction on terms identical to those offered to non-surgeons or received from us as fair market value consideration for services performed. These transactions were structured with the intention of complying with all applicable laws, including the Stark Law and state anti-referral laws.

The federal False Claims Act prohibits persons from knowingly filing or causing to be filed a false or fraudulent claim to, or the knowing use of false statements to obtain payment from, the federal government. Private suits filed under the False Claims Act, known as *qui tam* actions, can be brought by individuals on behalf of the government. These individuals, sometimes known as relators or, more commonly, as whistleblowers, may share in any amounts paid by the entity to the government in fines or settlement. The number of filings of *qui tam* actions has increased significantly in recent years, causing more healthcare companies to have to defend a False Claim Act action. If an entity is determined to have violated the federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties of between $5,500 to $11,000 for each separate false claim and may be subject to exclusion from Medicare, Medicaid and other federal healthcare programs. Various states have also enacted similar laws modeled after the federal False Claims Act which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

The Health Insurance Portability and Accountability Act, or HIPAA, created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment or possible exclusion from Medicare, Medicaid and other federal healthcare programs. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items, or services. A violation of this statute is a felony and in similar sanctions.

The federal government regularly evaluates the manner in which medical devices, such as our products, are marketed to doctors and other professionals. Recently, a law was proposed, the Physician Payment Sunshine Act of 2009, by Senators Grassley (IA) and Kohl (WI). This proposed legislation would require device manufacturers that are reimbursed by Medicare, Medicaid, or SCHIP to submit reports to the Department of Health and Human Services, or HHS, if they provide aggregate payments or transfers of value of $100 or more in a year to a physician or physician group. The proposed legislation would also require that the information submitted be publicly available on the HHS website. For an unintentional failure to report, device manufacturers would be fined between $1,000-$10,000 for each payment not reported, with a cap of $150,000 per year. For an intentional failure to report, the fines would be $10,000-$100,000 for each payment not reported with a cap of $1 million per year. This legislation would not preempt state laws that are more restrictive.

There are various state laws and initiatives that require device manufacturers to disclose to the appropriate regulatory agency certain payments or other transfers of value made to physicians, with the risk of fines for any violation of such requirements. Massachusetts has one of the most stringent of these laws, and the District of Columbia and Vermont passed such laws in 2008 and 2009, respectively. Other states have enacted or proposed similar legislation requiring the disclosure of payments by device manufacturers to physicians.

Table of Contents

If any of our operations are found to have violated or be in violation of any of the laws described above and other applicable state and federal fraud and abuse laws, we may be subject to penalties, among them being civil and criminal penalties, damages, fines, exclusion from government healthcare programs, and the curtailment or restructuring of our operations.

Third-Party Reimbursement

In the U.S., healthcare providers generally rely on third-party payors, principally private insurers and governmental payors such as Medicare and Medicaid, to cover and pay for all or part of the cost of a spine surgery in which our medical devices are used. We expect that sales volumes and prices of our products will depend in large part on the continued availability of reimbursement from such third-party payors. These third-party payors may deny reimbursement if they determine that a device used in a procedure was not medically necessary in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication. Particularly in the U.S., third-party payors continue to carefully review, and increasingly challenge, the prices charged for procedures and medical products.

Medicare reimbursement policies are developed by the Centers for Medicare and Medicaid Services, or CMS, the federal agency responsible for administering the Medicare program, and its contractors. CMS establishes Medicare reimbursement policies for medical products and procedures and such policies are periodically reviewed and updated. While private payors vary in their coverage and payment policies, the Medicare program is viewed as a benchmark. Medicare payment rates for the same or similar procedures vary due to geographic location, nature of the facility in which the procedure is performed (i.e., teaching or community hospital) and other factors. We cannot assure you that government or private third-party payors will cover and provide adequate payment for the procedures in which our products are used.

Internationally, healthcare payment systems vary substantially from country to country and include single-payor, government-managed systems as well as systems in which private payors and government-managed systems exist side-by-side. Our ability to achieve market acceptance or significant sales volume in international markets we enter will be dependent in large part on the availability of reimbursement for procedures performed using our products under the healthcare payment systems in such markets. A small number of countries may require us to gather additional clinical data before covering our products. It is our intent to complete the requisite clinical studies and obtain coverage in countries where it makes economic sense to do so.

We believe that the overall escalating cost of medical products and services has led to, and will continue to lead to, increased pressures on the healthcare industry to reduce the costs of products and services. We cannot assure you that government or private third-party payors will cover and provide adequate payment for the procedures using our products. In addition, it is possible that future legislation, regulation, or reimbursement policies of third-party payors will adversely affect the demand for procedures using our products or our ability to sell our products on a profitable basis. The unavailability or inadequacy of third-party payor coverage or reimbursement could have a significant adverse effect on our business, operating results and financial condition.

Employees

As of December 31, 2009, we had approximately 300 employees worldwide in the following areas: sales, physician services, marketing, clinical education, manufacturing, advanced manufacturing, quality assurance, regulatory affairs, research and development, human resources, finance, legal, information technology and administration. We have never experienced a work stoppage due to labor difficulties and believe that our relations with our employees are good. None of our employees is represented by a labor union or is subject to any collective bargaining agreement.

Table of Contents

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of such risks or the risks described below occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

Risks Related to Our Business and Industry

Our business plan relies on certain assumptions pertaining to the market for our products that, if incorrect, may adversely affect our growth and profitability.

We allocate our design, development, manufacturing, marketing, management and financial resources based on our business plan, which includes assumptions about various demographic trends and trends in the treatment of spine disorders and the resulting demand for our products. However, these trends are uncertain. There can be no assurance that our assumptions with respect to an aging population with broad medical coverage and longer life expectancy, which we expect to lead to increased spinal injuries and degeneration, are accurate. In addition, an increasing awareness and use of non-invasive means for the prevention and treatment of back pain and rehabilitation purposes may reduce demand for, or slow the growth of sales of, spine fusion products. A significant shift in technologies or methods used in the treatment of back pain or damaged or diseased bone and tissue could adversely affect demand for some or all of our products. For example, pharmaceutical advances could result in non-surgical treatments gaining more widespread acceptance as a viable alternative to spine fusion. The emergence of new biological tissue-based or synthetic materials to facilitate regeneration of damaged or diseased bone and to repair damaged tissue could increasingly minimize or delay the need for spine fusion surgery and provide other biological alternatives to spine fusion. New surgical procedures could diminish demand for some of our products. The increased acceptance of emerging technologies that do not require spine fusion, such as artificial discs and nucleus replacement, for the surgical treatment of spine disorders would reduce demand for, or slow the growth of sales of, spine fusion products. If our assumptions regarding these factors prove to be incorrect or if alternative treatments to those offered by our products gain further acceptance, then actual demand for our products could be significantly less than the demand we anticipate for our products and we may not be able to achieve or sustain growth or profitability.

If we fail to properly manage our anticipated growth, our business could suffer.

We continue to experience rapid growth in, and we will continue to pursue rapid growth in, the number of surgeons using our products, the types of products we offer and the number of states in which our products are sold. Such growth has placed and will continue to place significant demands on our managerial, operational and financial resources and systems. We are currently focused on increasing the size and effectiveness of our sales force and distribution network, marketing activities, research and development efforts, inventory management systems, management team and corporate infrastructure. If we do not manage our growth effectively, the quality of our products, our relationships with physicians, distributors and hospitals, and our reputation could suffer, which would have a significant adverse effect on our business, financial condition and results of operations. We must attract and retain qualified personnel and third-party distributors and manage and train them effectively. Personnel qualified in the design, development, production and marketing of our products are difficult to find and hire, and enhancements of information technology systems to support our growth are difficult to implement. We will also need to carefully monitor and manage our surgeon services, our manufacturing capabilities, quality assurance and efficiency, and the quality assurance and efficiency of our suppliers and distributors. This managing, training and monitoring will require allocation of valuable management resources and significant expense. The efficient operation of our business is dependent on our management information systems. We rely on our management information systems to effectively manage accounting and financial functions; manage order

Table of Contents

entry, order fulfillment and inventory replenishment processes; and maintain our research and development data. Any failure of our management information systems to perform as we anticipate could disrupt our business and product development and could result in decreased sales, increased overhead costs, excess inventory and product shortages, causing our business and results of operations to suffer.

Global economic and credit market conditions could affect a portion of our client base, subcontractors and suppliers, which could materially affect our backlog and profits.

Volatility and disruption in the global capital and credit markets in 2008 and 2009 has reduced the availability of liquidity and credit to fund or support the continuation and expansion of industrial business operations worldwide. Recent financial market conditions have resulted in significant write-downs of asset values by financial institutions, and have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers. Continued disruption of the credit markets could adversely affect the borrowing capacity of us or our suppliers and customers, which support the continuation and expansion of our sales worldwide, and could result in suppliers not being able to supply us with raw materials or finished goods or payment delays or defaults by our customers. In addition, in response to current market conditions, vendors or customers may choose to seek contract terms more favorable to them. Finally, our ability to expand our business could be limited if, in the future, we are unable to raise capital, on favorable terms or at all.

We may not be successful in manufacturing products at the levels required to meet future market demand.

We are seeking to rapidly grow sales of our products and if we are successful, such growth may strain our ability to manufacture an increasingly large supply of our products. We have never produced products in quantities significantly in excess of our current production levels. Manufacturers regularly experience difficulties in scaling up production and we may face such difficulties in increasing our production levels. Moreover, we may not be able to manufacture our products with consistent and satisfactory quality or in sufficient quantities to meet demand. Our failure to produce products of satisfactory quality or in sufficient quantities could hurt our reputation, cause hospitals, surgeons or distributors to cancel orders or refrain from placing new orders for our products and reduce or slow growth of sales of our products. Increases in our production volume also could make it harder for us to maintain control over expenses, manage our relationships with our suppliers, maintain good relations with our employees or otherwise manage our business.

We are in a highly competitive market segment, face competition from large, well-established medical device companies with significant resources, and may not be able to compete effectively.

The market for spine fusion products and procedures is intensely competitive, subject to rapid technological change and significantly affected by new product introductions and other market activities of industry participants. In 2009, a large portion of U.S. spine fusion product revenues were generated by Medtronic Sofamor Danek, a subsidiary of Medtronic, Inc., Depuy Spine, a subsidiary of Johnson & Johnson, Stryker Spine, and Synthes Spine. Our competitors also include numerous other publicly traded companies and privately held companies.

Several of our competitors enjoy competitive advantages over us, including:

- more established relationships with spine surgeons;
- more established distribution networks;
- broader spine surgery product offerings;
- stronger intellectual property portfolios;
- greater financial and other resources for product research and development, sales and marketing, and patent litigation;

27

Table of Contents

greater experience in, and resources for, launching, marketing, distributing and selling products;

significantly greater name recognition as well as more recognizable trademarks for products similar to the products that we sell;

more established relationships with healthcare providers and payors;

products supported by more extensive clinical data; and

greater experience in obtaining and maintaining FDA and other regulatory clearances or approvals for products and product enhancements. In addition, at any time our current competitors or other companies may develop alternative treatments, products or procedures for the treatment of spine disorders that compete directly or indirectly with our products, including ones that prove to be superior to our spine surgery products. For these reasons, we may not be able to compete successfully against our existing or potential competitors. Any such failure could lead us to modify our strategy, lower our prices, increase the commissions we pay on sales of our products and have a significant adverse effect on our business, financial condition and results of operations.

A significant percentage of our revenues are derived from the sale of our systems that include polyaxial pedicle screws.

Net sales of our systems that include polyaxial pedicle screws represented approximately 37.2% and 36.6% of our net sales for 2009 and for 2008, respectively. A decline in sales of these systems, due to market demand, the introduction by a third party of a competitive product, an intellectual property dispute involving these systems, or otherwise, would have a significant adverse impact on our business, financial condition and results of operations. Some of the technology related to our polyaxial pedicle screw systems is licensed to us. Any action that would prevent us from manufacturing, marketing and selling our polyaxial pedicle screw systems would have a significant adverse effect on our business, financial condition and results of operations. On February 12, 2010, a complaint was filed in the U.S. District Court for the Central District of California, by Cross Medical Products, LLC, or Cross, alleging that we owe Cross royalty payments on sales of certain products containing polyaxial pedicle screw components. While we believe that the plaintiff s allegations are without merit, the outcome of the litigation cannot be predicted at this time and any outcome in favor of Cross could have a significant adverse effect on our financial condition and results of operations.

To be commercially successful, we must convince the spine surgeon community that our products are an attractive alternative to our competitors products. If the spine surgeon community does not use our products, our sales will decline and we will be unable to increase our sales and profits.

In order for us to sell our products, surgeons must be convinced that they are superior to competing products for use in spine fusion procedures. Acceptance of our products depends on educating the spine surgeon community as to the distinctive characteristics, perceived benefits, safety and cost-effectiveness of our products compared to our competitors products and on training surgeons in the proper application of our products. If we are not successful in convincing the spine surgeon community of the merit of our products, our sales will decline and we will be unable to increase our sales and will be unable to achieve and sustain growth or profitability.

There is a learning process involved for spine surgeons to become proficient in the use of our products. Although most spine surgeons may have adequate knowledge on how to use most of our products based on their clinical training and experience, we believe that the most effective way to introduce and build market demand for our products is by directly training spine surgeons in the use of the products. If surgeons are not properly trained, they may misuse or ineffectively use our products. This may also result in unsatisfactory patient outcomes, patient injury, negative publicity or lawsuits against us, any of which could have a significant adverse effect on our business, financial condition and results of operations.

Table of Contents

Our sales and marketing efforts in the U.S. are largely dependent upon third parties, some of which are free to market products that compete with our products.

As of December 31, 2009, approximately 25% of our independent distributors in the U.S also market and sell the products of our competitors, and those competitors may have the ability to influence the products that our independent distributors choose to market and sell. Our competitors may be able, by offering higher commission payments or otherwise, to convince our independent distributors to terminate their relationships with us, carry fewer of our products or reduce their sales and marketing efforts for our products.

We must retain the current distributors of our products and attract new distributors of our products.

As we launch new products and increase our marketing efforts with respect to existing products, we will need to expand our sales and marketing organization. We plan to accomplish this by increasing our network of independent distributors and hiring additional direct sales representatives. The establishment and development of a broader sales network and dedicated sales force may be expensive and time consuming. Because of the intense competition for their services, we may be unable to recruit or retain additional qualified independent distributors and to hire additional direct sales representatives to work with us. Often, our competitors enter into distribution agreements with independent distributors that require such distributors to exclusively sell the products of our competitors. Further, we may not be able to enter into agreements with independent distributors on commercially reasonable terms, if at all. Even if we do enter into agreements with additional independent distributors, it often takes 90 to 120 days for new distributors to reach full operational effectiveness and such distributors may not generate revenue as quickly as we expect them to, commit the necessary resources to effectively market and sell our products or ultimately be successful in selling our products. Our business, financial condition and results of operations will be materially adversely affected if we do not retain our existing independent distributors and attract new, additional independent distributors or if the marketing and sales efforts of our independent distributors and our own direct sales representatives are unsuccessful.

We depend on various third-party suppliers, and in one case a single third-party supplier, for key raw materials used in our manufacturing processes and the loss of these third-party suppliers, or their inability to supply us with adequate raw materials, could harm our business.

We use a number of raw materials, including titanium, titanium alloys, stainless steel, PEEK, and allograft, which is human tissue donated by a third party. We rely from time to time on a number of suppliers and in one case on a single source vendor, Invibio, Inc. We have a supply agreement with Invibio, pursuant to which it supplies us with PEEK, a biocompatible plastic that we use in some of our spacers. Invibio is one of a limited number of companies approved to distribute PEEK in the U.S. for use in implantable devices. During 2009, 2008 and 2007, approximately 20% of our revenues each year were derived from products manufactured using PEEK.

We depend on a limited number of sources of human tissue for use in our allograft implants and bone grafting materials and a limited number of entities to process the human tissue into allograft for our allograft implants, and any failure to obtain tissue from these sources or to have the tissue processed by these entities for us in a timely manner will interfere with our ability to effectively meet demand for our allograft implants and bone grafting materials. The processing of human tissue into allograft and bone grafting materials is very labor intensive and it is therefore difficult to maintain a steady supply stream. In addition, due to seasonal changes in mortality rates, some scarce tissues used for our allograft are at times in particularly short supply. We cannot be certain that our supply of human tissue from our current suppliers and our supply of allograft and bone grafting materials from our current tissue processors will be available at current levels or will be sufficient to meet our needs.

Our dependence on a single third-party PEEK supplier and the challenges we may face in obtaining adequate supplies of allograft involve several risks, including limited control over pricing, availability, quality and delivery schedules. In addition, any supply interruption in a limited or sole sourced component or raw material, such as PEEK or allograft, could materially harm our ability to manufacture our products until a new source of supply, if any, could be found. We may be unable to find a sufficient alternative supply channel in a reasonable time period or on commercially reasonable terms, if at all, which would have a significant adverse effect on our business, financial condition and results of operations.

Table of Contents

Negative publicity concerning methods of tissue recovery and screening of donor tissue in our industry could reduce demand for tissue-based products and impact the supply of available donor tissue.

Media reports or other negative publicity concerning both alleged improper methods of tissue recovery from donors and disease transmission from donated tissue could limit widespread acceptance of tissue-based products. Unfavorable reports of improper or illegal tissue recovery practices, both in the U.S. and internationally, as well as incidents of improperly processed tissue leading to the transmission of disease, may broadly affect the rate of future tissue donation and market acceptance of tissue-based product technologies. In addition, such negative publicity could cause the families of potential donors to become reluctant to agree to donate tissue to for-profit tissue processors, which could have a negative effect on our tissue-based products business.

The demand for our products and the prices at which customers and patients are willing to pay for our products depend upon the ability of our customers to obtain adequate third-party coverage and reimbursement for their purchases of our products.

Sales of our products depend in part on the availability of adequate coverage and reimbursement from governmental and private payors. In the U.S., healthcare providers that purchase our products generally rely on third-party payors, principally Medicare, Medicaid and private health insurance plans, to pay for all or a portion of the costs and fees associated with the use of our products. While our currently marketed products are eligible for reimbursement in the U.S., if surgical procedures utilizing our products are performed on an outpatient basis, it is possible that private payors may no longer provide reimbursement for our products without further supporting data on our procedure. Any delays in obtaining, or an inability to obtain, adequate coverage or reimbursement for procedures using our products could significantly affect the acceptance of our products and have a significant adverse effect on our business. Additionally, third-party payors continue to review their coverage policies carefully for existing and new therapies and can, without notice, deny coverage for treatments that include the use of our products. Our business would be negatively impacted to the extent any such changes reduce reimbursement for our products.

With respect to coverage and reimbursement outside of the U.S., reimbursement systems in international markets vary significantly by country, and by region within some countries, and reimbursement approvals must be obtained on a country-by-country basis and can take up to 18 months, or longer. Many international markets have government-managed healthcare systems that govern reimbursement for new devices and procedures. In most markets, there are private insurance systems as well as government-managed systems. Additionally, some foreign reimbursement systems provide for limited payments in a given period and therefore result in extended payment periods. Reimbursement in international markets may require us to undertake country-specific reimbursement activities, including additional clinical studies, which could be time consuming, expensive and may not yield acceptable reimbursement rates.

Furthermore, healthcare costs have risen significantly over the past decade. There have been and may continue to be proposals by legislators, regulators and third-party payors to contain these costs. These cost- control methods include prospective payment systems, capitated rates, group purchasing, redesign of benefits, requiring pre-authorizations or second opinions prior to major surgery, encouragement of healthier lifestyles and exploration of more cost-effective methods of delivering healthcare. Some healthcare providers in the U.S. have adopted or are considering a managed care system in which the providers contract to provide comprehensive healthcare for a fixed cost per person. Healthcare providers may also attempt to control costs by authorizing fewer elective surgical procedures or by requiring the use of the least expensive devices possible. These cost-control methods also potentially limit the amount which healthcare providers may be willing to pay for medical devices. In addition, in the U.S., no uniform policy of coverage and reimbursement for medical technology exists among all these payors. Therefore, coverage of and reimbursement for medical technology can differ significantly from payor to payor. The continuing efforts of third-party payors, whether governmental or commercial, whether inside the U.S. or outside, to contain or reduce these costs, combined with closer scrutiny of such costs, could restrict our customers ability to obtain adequate coverage and reimbursement from these third-party payors. The cost containment measures that healthcare providers are instituting both in the U.S. and internationally could harm our business by adversely affecting the demand for our products or the price at which we can sell our products.

Table of Contents

Consolidation in the healthcare industry could lead to demands for price concessions or to the exclusion of some suppliers from certain of our markets, which could have an adverse effect on our business, financial condition or results of operations.

Because healthcare costs have risen significantly over the past decade, numerous initiatives and reforms initiated by legislators, regulators and third-party payors to curb these costs have resulted in a consolidation trend in the healthcare industry to create new companies with greater market power, including hospitals. As the healthcare industry consolidates, competition to provide products and services to industry participants has become and will continue to become more intense. This in turn has resulted and will likely continue to result in greater pricing pressures and the exclusion of certain suppliers from important market segments as group purchasing organizations, independent delivery networks and large single accounts continue to use their market power to consolidate purchasing decisions for some of our customers. We expect that market demand, government regulation, third-party reimbursement policies and societal pressures will continue to change the worldwide healthcare industry, resulting in further business consolidations and alliances among our customers, which may reduce competition, exert further downward pressure on the prices of our products and may adversely impact our business, financial condition or results of operations.

We may face significant uncertainty in the industry due to government healthcare reform.

Political, economic and regulatory influences are subjecting the healthcare industry to fundamental changes. Reforms under consideration in the U.S. include mandated basic healthcare benefits, controls on healthcare spending through limitations on the growth of private health insurance premiums and Medicare and Medicaid spending, the creation of large insurance purchasing groups, significant modifications to the healthcare delivery system, and the mandatory transparency of manufacturers business operations. We anticipate that Congress and certain state legislatures will continue to review and assess alternative healthcare delivery systems and payment methods. Public debate of these issues will likely continue in the future. Due to uncertainties regarding the ultimate features of reform initiatives and their enactment and implementation, we cannot predict which, if any, of such reform proposals will be adopted, when they may be adopted or what impact they may have on us.

We are subject to substantial governmental regulation that could change and thus force us to make modifications to how we develop, manufacture and price our products.

The medical device industry is regulated extensively by governmental authorities, principally the FDA and corresponding state and foreign regulatory agencies. The FDA and other federal, state and foreign governmental agencies regulate, among other things, the development, manufacturing, clinical trials, marketing clearance and approval, promotion and sale of medical devices.

Compliance with these regulations is, and will continue to be, time consuming, burdensome and expensive. Failure to comply with these regulations could jeopardize our ability to manufacture and sell our products and result in enforcement actions such as warning letters, fines, injunctions, civil penalties, termination of distribution, seizures of products, total or partial suspension of production, refusal of the FDA or other regulatory agencies to grant future clearances or approvals, or withdrawals or suspensions of current clearances or approvals, all of which could result in higher than anticipated costs or lower than anticipated revenue and have a material adverse effect on our business, financial condition and results of operations. In the most egregious cases, we could face criminal sanctions, closure of our manufacturing facilities and prohibitions on the sales of our products.

The regulations to which we are subject to are complex and have tended to become more stringent over time. Regulatory changes could result in restrictions on our ability to carry on or expand our operations, higher than anticipated costs or lower than anticipated revenue.

Foreign governmental authorities that regulate the manufacture and sale of medical devices have become increasingly vigilant and sales of our products in foreign countries are subject to rigorous foreign regulations. We

Table of Contents

rely on Alphatec Pacific, Inc. with respect to compliance with Japanese regulations. In other parts of the world we will need to ensure that our products are sold in compliance with local regulations on a country-by-country basis. Any failure to comply with applicable regulations could result in restrictions on the sale of our products in foreign countries.

If we fail to obtain, or experience significant delays in obtaining, FDA clearances or approvals for our future products or modifications to our products, our ability to commercially distribute and market our products could suffer.

Our medical devices are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining regulatory clearances or approvals to market a medical device, particularly from the FDA, can be costly and time consuming, and there can be no assurance that such clearances or approvals will be granted on a timely basis, if at all. In particular, the FDA permits commercial distribution of most new medical devices only after the devices have received clearance under Section 510(k) of the Federal Food, Drug and Cosmetic Act, or 510(k), or are the subject of an approved premarket approval application, or a PMA. The 510(k) process generally takes three to nine months, but can take significantly longer, especially if the FDA requires a clinical study to support 510(k) application. In connection with the 510(k) application we filed for the OsseoFix system, the FDA required clinical data to support the 510(k) application. Currently, we are not certain as to whether any additional products in our pipeline will require a clinical trial to support such product s 510(k) application. In addition, the FDA is currently re-examining its 510(k) clearance process for medical devices and any changes that make the process more restrictive could increase the time it takes for us to obtain clearances or could make the 510(k) process unavailable for certain of our products. A PMA must be submitted to the FDA if the device cannot be cleared through the 510(k) process or is not exempt from premarketing review by the FDA. A PMA must be supported by extensive data, including results of preclinical studies and clinical trials, manufacturing and control data and proposed labeling, to demonstrate to the FDA s satisfaction the safety and effectiveness of the device for its intended use. The PMA process is more costly and uncertain than the 510(k) clearance process, and generally takes between one and three years, if not longer. In addition, any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, requires a new 510(k) clearance or, possibly, a PMA.

Our commercial distribution and marketing of any products or product modifications that we develop may be delayed since regulatory clearance or approval is required. In addition, because we cannot assure you that any new products or any product modifications we develop will be subject to the shorter 510(k) clearance process, the regulatory approval process for our new products or product modifications may take significantly longer than anticipated. There is no assurance that the FDA will not require a new product or product modification to go through the lengthy and expensive PMA approval process. Delays in obtaining regulatory clearances and approvals may:

- delay or prevent commercialization of products we develop;
- require us to perform costly procedures;
- diminish any competitive advantages that we may attain; and
- reduce our ability to collect revenues.

To date, all of our medical device products requiring FDA approval or clearance that are being sold in the U.S. have been cleared through the 510(k) process without any required clinical trials. We have no experience in obtaining approval for a device through the 510(k) clinical trial process or the PMA process.

Our tissue-based products and related technologies could become subject to significantly greater regulation by the FDA, which could disrupt our business.

The FDA may regulate certain tissue-based products as medical devices, drugs or biologics if the product is deemed to have been more than minimally manipulated or indicated for nonhomologous use. Homologous use is

Table of Contents

generally interpreted as the use of tissue for the same basic function in the recipient as it fulfilled in the donor. If the FDA decides that any of our current or future tissue-based products are more than minimally manipulated or indicated for nonhomologous use, it would require us to either obtain 510(k) clearance or a PMA approval if the tissue-based product is viewed as a medical device or obtain approval as a drug or biologic if it is viewed as a drug or biologic. Depending on the nature and extent of any FDA decision applicable to our tissue-based products, further distribution of the affected products could be interrupted for a substantial period of time, which would reduce our revenues and hurt our profitability.

The safety of our products is not yet supported by long-term clinical data and may therefore prove to be less safe and effective than initially thought.

We obtained clearance to offer all of our current medical device products through the FDA s 510(k) clearance process. The 510(k) clearance process is generally based on the FDA s agreement that a new product is substantially equivalent to already marketed products. Thus, the FDA s 510(k) clearance process is less rigorous than the PMA process and requires little, if any, supporting clinical data. For these reasons, surgeons may be slow to adopt our 510(k)-cleared products, we may not have the comparative data that our competitors have or are generating, and we may be subject to greater regulatory and product liability risks. With the passage of the American Recovery and Reinvestment Act of 2009, funds have been appropriated for the U.S. Department of Health and Human Services Healthcare Research and Quality to conduct comparative effectiveness research to determine the effectiveness of different drugs, medical devices, and procedures in treating certain conditions and diseases. Some of our products or procedures performed with our products could become the subject of such research. It is unknown what effect, if any, this research may have on our business. Further, future research or experience may indicate that treatment with our products does not improve patient outcomes. Such results would reduce demand for our products and this could cause us to withdraw our products from the market. Moreover, if future research or experience indicate that our products cause unexpected or serious complications or other unforeseen negative effects, we could be subject to significant legal liability, significant negative publicity, damage to our reputation and a dramatic reduction in sales of our products, all of which would have a material adverse effect on our business, financial condition and results of operations.

If clinical trials of our current or future product candidates do not produce results necessary to support regulatory approval in the U.S., we will be unable to commercialize these products.

Several investigational devices in our development pipeline, including our OsseoFix Spinal Fracture Reduction System, require either a 510(k) with clinical trial data or a PMA from the FDA before we can market such product in the U.S. The clinical trial is required by the FDA to demonstrate to the FDA s satisfaction the safety and effectiveness of the device for its intended use. As a result, to receive regulatory approval in the U.S. for OsseoFix, we must conduct, at our own expense, a clinical trial to demonstrate efficacy and safety in humans. Clinical testing is expensive and has an uncertain outcome. Clinical failure can occur at any stage of the testing. Our clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and/or non-clinical testing. Our failure to adequately demonstrate the efficacy and safety of any of our devices would prevent receipt of regulatory approval and, ultimately, the commercialization of that device.

If we or our suppliers fail to comply with the FDA s quality system and good tissue practice regulations, the manufacture of our products could be delayed.

We and our suppliers are required to comply with the FDA s quality system regulations, or QSRs, which cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our products. In addition, suppliers and processors of allograft must comply with the FDA s current good tissue practice regulations, or CGTPs, which govern the methods used in and the facilities and controls used for the manufacture of human cell tissue and cellular and tissue-based products, record keeping and the establishment of a quality program. The FDA audits compliance with the QSRs and CGTPs through inspections of manufacturing and other facilities. If we or our suppliers have significant

Table of Contents

non-compliance issues or if any corrective action plan is not sufficient, we or our suppliers could be forced to delay the manufacture of our products until such problems are corrected to the FDA s satisfaction, which could have a material adverse effect on our business, financial condition and results of operations. Further, our products could be subject to recall if the FDA determines, for any reason, that our products are not safe or effective. Any recall or FDA requirement demanding that we seek additional approvals or clearances could result in delays, costs associated with modification of a product, loss of revenue and potential operating restrictions imposed by the FDA, all of which could have a material adverse effect on our business, financial condition and results of operations.

As a result of our last two inspections, which were conducted in November 2009 and January 2010, non-compliance items were cited on two FDA Form 483s, which is a notice of inspection observation that we received following the inspections. Following receipt of each Form 483, we submitted a formal response in which we indicated the steps that we had taken to correct the noted deficiencies. The FDA is currently reviewing such responses.

If we choose to acquire new and complementary businesses, products or technologies, we may be unable to complete these acquisitions or successfully integrate them in a cost effective and non-disruptive manner.

Our success depends in part on our ability to continually enhance and broaden our product offering in response to changing customer demands, competitive pressures and technologies and our ability to increase our market share. Accordingly, we intend to pursue the acquisition of complementary businesses, products or technologies instead of developing them ourselves. We do not know if we will be able to successfully complete any acquisitions, or whether we will be able to successfully integrate any acquired business, product or technology into our business or retain any key personnel, suppliers or distributors. Our ability to successfully grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. These efforts could be expensive and time consuming, disrupt our ongoing business and distract management. If we are unable to integrate any future acquired businesses, products or technologies effectively, our business, financial condition and results of operations will be materially adversely affected. For example, an acquisition could materially impair our operating results by causing us to incur debt or requiring us to amortize significant amounts of expenses, including non-cash acquisition costs, and acquired assets.

Our future revenue growth depends to a significant extent on our ability to expand in the Japanese, European and other foreign markets. If our revenue growth is slower than expected in these markets, our future revenue targets may not be achieved.

We believe that many of the primary barriers to success in the market for spinal products in Japan, Europe and other foreign markets are similar to those in the U.S., including the challenges of increasing market penetration, expanding the size and quality of each region s sales force and obtaining regulatory approval for products. There can be no assurance, however, that we will achieve expected revenue growth in these markets. If we experience slower than expected revenue growth in these markets, our revenues from our overseas businesses may not increase as anticipated, making it more difficult for us to achieve our future revenue growth targets.

We may not be able to timely develop new products or product enhancements that will be accepted by the market.

We sell our products in a market that is characterized by technological change, product innovation, evolving industry standards, competing patent claims, patent litigation and intense competition. Our success will depend in part on our ability to develop and introduce new products and enhancements or modifications to our existing products, which we will need to do before our competitors do so and in a manner that does not infringe issued patents of third parties from which we do not have a license. We cannot assure you that we will be able to successfully develop or market new, improved or modified products, or that any of our future products will be accepted by even the surgeons who use our current products. Our competitors product development capabilities

Table of Contents

could be more effective than our capabilities, and their new products may get to market before our products. In addition, the products of our competitors may be more effective or less expensive than our products. The introduction of new products by our competitors may lead us to have price reductions, reduced margins or loss of market share and may render our products obsolete or noncompetitive. The success of any of our new product offerings or enhancement or modification to our existing products will depend on several factors, including our ability to:

- properly identify and anticipate surgeon and patient needs;
- develop new products or enhancements in a timely manner;
- obtain the necessary regulatory approvals for new products or product enhancements;
- provide adequate training to potential users of new products;
- receive adequate reimbursement approval of third-party payors such as Medicaid, Medicare and private insurers; and
- develop an effective marketing and distribution network.

Developing products in a timely manner can be difficult, in particular because product designs change rapidly to adjust to third-party patent constraints and to market preferences. As a result, we may experience delays in our product launches which may significantly impede our ability to enter or compete in a given market and may reduce the sales that we are able to generate from these products. We may experience delays in any phase of a product launch, including during research and development, clinical trials, manufacturing, marketing and the surgeon training process. In addition, our suppliers of products or components that we do not manufacture can suffer similar delays, which could cause delays in our product introductions. If we do not develop new products or product enhancements in time to meet market demand or if there is insufficient demand for these new products or enhancements, it could have a significant adverse effect on our business financial condition and results of operations.

Our products and product enhancements under development may not be commercially viable.

While we devote significant resources to research and development, our research and development may not lead to improved or new products that are commercially successful. The research and development process is expensive, prolonged and entails considerable uncertainty. Development of medical devices, from discovery, through testing and registration, to initial product launch, typically takes between three and seven years in the U.S. Each of these periods varies considerably from product to product and country to country. Because of the complexities and uncertainties associated with spine fusion research and development, we may elect to cease development of one or more of our product candidates if we believe that the product candidate would not be commercially viable.

Our products and related capital instruments may become obsolete prior to the end of their anticipated useful lives.

A stated goal of our business is to focus on continual product innovation and to obsolete our own products. While we believe this provides a competitive edge, it also results in the risk that our products and related capital instruments will become obsolete prior to the end of their anticipated useful lives. If we introduce new products or next-generation products prior to the end of the useful life of a prior generation, we may be required to dispose of existing inventory and related capital instruments and/or write off the value or accelerate the depreciation of the these assets. We have not recorded excess and obsolescence expenses related to the introduction of next generation products.

Table of Contents

We are dependent on our senior management team, sales and marketing team, engineering team and key surgeon advisors, and the loss of any of them could harm our business.

Our continued success depends in part upon the continued availability and contributions of our senior management, sales and marketing team and engineering team and the continued participation of our key surgeon advisors. While we have succession plans in place and have entered into employment agreements with all members of our senior management team, other than with respect to our President and CEO, President of Alphatec Pacific, and General Manager, Europe, none of these agreements guarantees the services of the individual for a specified period of time. We would be adversely affected if we fail to adequately prepare for future turnover of our senior management team. Our ability to grow or at least maintain our sales levels depends in large part on our ability to attract and retain sales and marketing personnel and for these sales people to maintain their relationships with surgeons directly and through our distributors. We rely on our engineering team to research, design and develop potential products for our product pipeline. We also rely on our surgeon advisors to advise us on our products, our product pipeline, long-term scientific planning, research and development and industry trends. We compete for personnel and advisors with other companies and other organizations, many of which are larger and have greater name recognition and financial and other resources than we do. The loss of members of our senior management team, sales and marketing team, engineering team and key surgeon advisors, or our inability to attract or retain other qualified personnel or advisors could have a significant adverse effect on our business, financial conditions and results of operations.

We rely on our information technology systems for inventory management, distribution and other functions and to maintain our research and development data. If our information technology systems fail to adequately perform these functions, or if we experience an interruption in their operation, our business, financial condition and results of operations could be adversely affected.

The efficient operation of our business is dependent on our information technology systems. We rely on our information technology systems to effectively manage accounting and financial functions; manage order entry, order fulfillment and inventory replenishment processes; and maintain our research and development data. The failure of our information technology systems to perform as we anticipate could disrupt our business and product development and could result in decreased sales, increased overhead costs, excess inventory and product shortages, all of which could have a significant adverse effect on our business, financial condition and results of operations. In addition, our information technology systems are vulnerable to damage or interruption from:

earthquake, fire, flood and other natural disasters;

terrorist attacks and attacks by computer viruses or hackers;

power loss; and

computer systems, or Internet, telecommunications or data network failure.

Any such interruption could have significant adverse effect on our business, financial condition and results of operations.

The majority of our operations and all of our manufacturing facilities are currently conducted in locations that may be at risk of damage from fire, earthquakes or other natural disasters. If a natural disaster strikes, we may be unable to manufacture certain products for a substantial amount of time.

We currently conduct the majority of our development, manufacturing and management activities in Carlsbad, California near known wildfire areas and earthquake fault zones. We have taken precautions to safeguard our facilities, including obtaining property and casualty insurance, and implementing health and safety protocols. We have developed an Information Technology disaster recovery plan. However, any future natural disaster, such as a fire or an earthquake, could cause substantial delays in our operations, damage or destroy our equipment or inventory and cause us to incur additional expenses. A disaster could seriously harm our business, financial condition and results of operations. Our facilities would be difficult to replace and would require

Table of Contents

substantial lead time to repair or replace. The insurance we maintain against earthquakes, fires, and other natural disasters would not be adequate to cover a total loss of our manufacturing facilities, may not be adequate to cover our losses in any particular case and may not continue to be available to us on acceptable terms, or at all.

Alphatec Holdings is a holding company with no operations, and unless it receives dividends or other payments from Alphatec Spine, Inc., it will be unable to fulfill its cash obligations.

As a holding company with no business operations, Alphatec Holdings material assets consist only of the common stock of Alphatec Spine (and any other subsidiaries Alphatec Holdings may own in the future), dividends and other payments received from time to time from Alphatec Spine or such subsidiaries, and the proceeds raised from the sale of debt and equity securities. Alphatec Spine is legally distinct from Alphatec Holdings and has no obligation, contingent or otherwise, to make funds available to Alphatec Holdings. Alphatec Holdings will have to rely upon dividends and other payments from Alphatec Spine (and any other subsidiaries Alphatec Holdings may own in the future) to generate the funds necessary to fulfill its cash obligations. Alphatec Holdings may not be able to access cash generated by Alphatec Spine in order to fulfill cash commitments. The ability of Alphatec Spine to make dividend and other payments to Alphatec Holdings is subject to the availability of funds after taking into account Alphatec Spine s funding requirements, the terms of Alphatec Spine s indebtedness and applicable state laws. Alphatec Spine s current credit facility with Silicon Valley Bank and Oxford Finance Corporation prohibit Alphatec Spine from declaring or paying dividends, other than dividends payable in capital stock, during the term of the facility.

Risks Related to Our Financial Results and Need for Financing

The current global recession and credit crisis could adversely affect our business.

A deep and potentially prolonged global recession began in the U.S. in December 2007. In mid-February 2009, The Federal Reserve warned that the U.S. economy faces an unusually gradual and prolonged period of recovery from this deep and recessionary period. The financial and credit crisis also triggered a period of upheaval characterized by bankruptcy, failure, collapse or sale at nominal amounts of various financial institutions. Despite the unprecedented level of intervention in the credit markets by the U.S. and foreign governments that has already occurred and is likely to continue to occur, this crisis could temporarily restrict our ability to borrow money on acceptable terms in the credit markets and potentially could affect our ability to draw on our current credit facility. The financial and credit crisis could make it difficult or, in many cases, impossible for our customers to borrow money to fund their operations. Their lack of or limited access to capital may adversely affect their ability to purchase our products or, in some cases, to pay for our products on a timely basis.

Our quarterly financial results could fluctuate significantly.

Our quarterly financial results are difficult to predict and may fluctuate significantly from period to period, particularly because our sales prospects are uncertain. The level of our revenues and results of operations at any given time will be based primarily on the following factors:

- acceptance of our products by surgeons, patients, hospitals and third-party payors;
- demand and pricing of our products;
- the mix of our products sold, because profit margins differ among our products;
- timing of new product offerings, acquisitions, licenses or other significant events by us or our competitors;
- our ability to grow and maintain a productive sales and marketing organization;
- regulatory approvals and legislative changes affecting the products we may offer or those of our competitors;

the effect of competing technological and market developments;

Table of Contents

levels of third-party reimbursement for our products;

interruption in the manufacturing or distribution of our products;

our ability to produce or obtain products of satisfactory quality or in sufficient quantities to meet demand; and

changes in our ability to obtain FDA, state and international approval or clearance for our products.

In addition, until we have a larger base of surgeons using our products, occasional fluctuations in the use of our products by individual surgeons or small groups of surgeons will have a proportionately larger impact on our revenues than for companies with a larger customer base.

Many of the products we may seek to develop and introduce in the future will require FDA, state and international approval or clearance. We cannot begin to commercialize any such products in the U.S. without FDA approval or clearance or outside of the U.S. without appropriate regulatory approvals and import licenses. As a result, it will be difficult for us to forecast demand for these products with any degree of certainty. We cannot assure you that our revenue will increase or be sustained in future periods or that we will be profitable in any future period. Any shortfalls in revenue or earnings from levels expected by our stockholders or by securities or industry analysts could have an immediate and significant adverse effect on the trading price of our common stock in any given period.

We may need to raise additional funds in the future and such funds may not be available on acceptable terms, if at all.

We believe that our current cash and cash equivalents, revenues from our operations, and Alphatec Spine s ability to draw down on its credit facility, will be sufficient to fund our projected operating requirements through December 31, 2010. Despite this belief, we may seek additional funds from public and private stock offerings, borrowings under new debt facilities or other sources. Our capital requirements will depend on many factors, including:

the revenues generated by sales of our products;

the costs associated with expanding our sales and marketing efforts;

the expenses we incur in manufacturing and selling our products;

the costs of developing new products or technologies;

the cost of obtaining and maintaining FDA or other regulatory approval or clearance for our products and products in development;

the number and timing of acquisitions and other strategic transactions;

the costs associated with increased capital expenditures; and

the costs associated with our employee retention programs and related benefits.

As a result of these factors, we may need to raise additional funds and such funds may not be available on favorable terms, if at all. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution and the new equity or debt

securities may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to our potential products or proprietary technologies, or to grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements. Any of these events could adversely affect our ability to achieve our development and commercialization goals and have a significant adverse effect on our business, financial condition and results of operations.

Table of Contents

We may be unable to comply with the covenants of our credit facility.

We are required to maintain compliance with financial covenants in our credit facility, which include a minimum level of revenues and a minimum level of adjusted EBITDA (a non-GAAP term defined as net income (loss) excluding the effects of interest, taxes, depreciation, amortization, stock-based compensation and other non-recurring income and expense items). The minimum covenants are consistent each quarter during fiscal 2010. In order to meet the covenants for 2010, we will need to achieve growth over our historical revenue and earnings levels. If we are not able to achieve planned revenue growth or incur costs in excess of our forecast, we could be in default of the credit facility and the Lenders would have the right to declare the loan immediately due and payable. To secure the repayment of any amounts borrowed under this credit facility, we granted to the lenders a first priority security interest in all of our assets, other than our intellectual property and our rights under license agreements granting us rights to intellectual property. We also agreed not to pledge or otherwise encumber our intellectual property assets without the approval of the lenders. The credit facility also contains customary affirmative and negative covenants for loan agreements of this type, including, but not limited to, limitations on the incurrence of indebtedness, asset dispositions, acquisitions, investments, dividends and other restricted payments, liens and transactions with affiliates. A nonappealable judgment in excess of $100,000 that is unsatisfied for a period of ten days is also defined as an event of default.

In the event of an event of default, the lenders have the right to declare the amounts borrowed under the credit facility immediately due and payable and terminate all commitments to extend further credit. An event of default under the credit facility, includes, among other things, the failure to make payments when due, breaches of representations, warranties or covenants, the occurrence of certain insolvency events, or the occurrence of an event which could have a material adverse effect on us. If we were unable to repay those amounts, the lenders under the credit facility could proceed against the collateral granted to them pursuant to the credit facility. We have pledged a significant portion of our assets as collateral under the credit facility. If the lenders accelerate the repayment of our borrowings, we cannot assure you that we will have sufficient cash on hand to repay the amounts borrowed under the credit facility.

We are subject to certain risks associated with our foreign operations.

Our operations outside of the U.S. are primarily in Japan and the European Union, although we also sell products in Hong Kong and South America. Certain risks are inherent in international operations, including:

- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- foreign customers who may have longer payment cycles than customers in the U.S.;
- tax rates in foreign countries may exceed those in the U.S. and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions including transfer pricing restrictions when products produced in one country are sold to an affiliated entity in another country;
- economic and political instability in countries where we operate or where end-users of spine fusion surgery reside;
- difficulties associated with managing a large organization spread throughout various countries;
- difficulties in obtaining and enforcing intellectual property rights;
- required compliance with a variety of foreign laws and regulations;
- imposition of costly and lengthy new export licensing requirements;

laws and business practices favoring local companies; and

lack of availability and reduced level of reimbursement within prevailing foreign healthcare payment systems.

Table of Contents

If we continue to expand our business outside of the U.S., our success will depend, in part, on our ability to anticipate and effectively manage these and other risks. We cannot assure you that these and other factors will not have a significant adverse effect on our international operations or our business as a whole.

Compliance with changing regulations and standards for accounting, corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations, including accelerated SEC filing timelines and new Proxy rules, new NASDAQ Stock Market rules, and new accounting pronouncements are creating uncertainty and additional complexities for companies such as ours. In particular, the Section 404 internal control evaluation requirements under the Sarbanes-Oxley Act have added and will continue to add complexity and costs to our business and require a significant investment of our time and resources to complete each year. We take these requirements seriously and will make every effort to ensure that we receive clean attestations on our internal controls each year from our outside auditors, but there is no guarantee that our efforts to do so will be successful. To maintain high standards of corporate governance and public disclosure, we intend to invest all reasonably necessary resources to comply with all other evolving standards. These investments may result in increased general and administrative expenses and a diversion of management time and attention from strategic revenue generating and cost management activities.

If we fail to maintain effective internal controls and procedures for financial reporting, we could be unable to provide timely and accurate financial information and therefore be subject to delisting from The NASDAQ Stock Market, an investigation by the SEC, and civil or criminal sanctions. Additionally, ineffective internal control over financial reporting would place us at increased risk of fraud or misuse of corporate assets and could cause our stockholders, lenders, suppliers and others to lose confidence in the accuracy or completeness of our financial reports.

A portion of our revenues and expenditures is subject to exchange rate fluctuations that could adversely affect our reported results of operations.

While a majority of our business is denominated in U.S. dollars, we maintain operations in foreign countries, primarily Japan and the European Union. Sales of our products in a foreign country may require payments in the local currency. Consequently, fluctuations in the rate of exchange between the U.S. dollar and certain other currencies may affect our results of operations and period-to-period comparisons of our operating results. For example, if the value of the U.S. dollar were to fall relative to the Japanese Yen or the Euro, then our reported revenues would increase when we convert the higher valued foreign currency into U.S. dollars. If the value of the U.S. dollar were to increase in relation to the Japanese Yen or the Euro, then there would be a negative effect on the value of our sales in Japan or Europe to the extent our revenues in Japanese Yen or Euros are in excess of our Japanese Yen costs or Euro costs, respectively at the time that we converted amounts to U.S. dollars in connection with the preparation of our financial statements. We do not currently engage in hedging or similar transactions to reduce these risks.

Risks Related to Our Intellectual Property Regulatory Penalties and Potential Litigation

If our patents and other intellectual property rights do not adequately protect our products, we may lose market share to our competitors and be unable to operate our business profitably.

Our success depends significantly on our ability to protect our proprietary rights to the technologies used in our products. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws, and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. For example, we cannot assure you that any of our pending patent applications will result in the issuance of patents to us. The U.S. Patent and Trademark Office, or PTO, may deny or require

Table of Contents

significant narrowing of claims in our pending patent applications, and patents issued as a result of the pending patent applications, if any, may not provide us with significant commercial protection or be issued in a form that is advantageous to us. We could also incur substantial costs in proceedings before the PTO. These proceedings could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. Our issued patents and those that may be issued in the future could subsequently be successfully challenged by others and invalidated or rendered unenforceable, which could limit our ability to stop competitors from marketing and selling related products. In addition, our pending patent applications include claims to aspects of our products and procedures that are not currently protected by issued patents.

Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Competitors may be able to design around our patents or develop products that provide outcomes that are comparable to our products. Although we have entered into confidentiality agreements and intellectual property assignment agreements with certain of our employees, consultants and advisors as one of the ways we seek to protect our intellectual property and other proprietary technology, such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Furthermore, the laws of some foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S., if at all. Since most of our issued patents and pending patent applications are for the U.S. only, we lack a corresponding scope of patent protection in other countries, including Japan. Thus, we may not be able to stop a competitor from marketing products in other countries that are similar to some of our products.

In the event a competitor infringes upon one of our patents or other intellectual property rights, enforcing those patents and rights may be difficult and time consuming. Even if successful, litigation to defend our patents against challenges or to enforce our intellectual property rights could be expensive and time consuming and could divert management s attention from managing our business. Moreover, we may not have sufficient resources to defend our patents against challenges or to enforce our intellectual property rights.

The medical device industry is characterized by patent and other intellectual property litigation and we could become subject to litigation that could be costly, result in the diversion of management s time and efforts, require us to pay damages, and/or prevent us from marketing our existing or future products.

The medical device industry is characterized by extensive litigation and administrative proceedings over patent and other intellectual property rights. Determining whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Our competitors may assert that our products, the components of those products, the methods of using those products, or the methods we employ in processing those products are covered by U.S. or foreign patents held by them. In addition, they may claim that their patents have priority over ours because their patents were issued first. Because patent applications can take many years to issue, there may be applications now pending of which we are unaware, which may later result in issued patents that our products may infringe. There could also be existing patents that one or more components of our products may be inadvertently infringing, of which we are unaware. As the number of participants in the market for spine disorder devices and treatments increases, the possibility of patent infringement claims against us increases. On February 12, 2010, a complaint was filed in the U.S. District Court for the Central District of California, by Cross Medical Products, LLC, or Cross, alleging that we owe Cross royalty payments on sales of certain products containing polyaxial pedicle screw components. While we believe that the plaintiff s allegations are without merit, the outcome of the litigation cannot be predicted at this time and any outcome in favor of Cross could have a significant adverse effect on our financial condition and results of operations.

Any such claim against us, even those without merit, may cause us to incur substantial costs, and could place a significant strain on our financial resources, divert the attention of management from our core business and harm our reputation. If the relevant patents were upheld as valid and enforceable and we were found to infringe, we could be required to pay substantial damages, including treble, or triple, damages if an infringement is found to be willful, and/or royalties and we could be prevented from selling our products unless we could obtain a license or were able to redesign our products to avoid infringement. Any such license may not be

Table of Contents

available on reasonable terms, if at all, and there can be no assurance that we would be able to redesign our products in a way that would not infringe those patents. If we fail to obtain any required licenses or make any necessary changes to our products or technologies, we may have to withdraw existing products from the market or may be unable to commercialize one or more of our products, either of which could have a significant adverse effect on our business, financial condition and results of operations.

In addition, in order to further our product development efforts, from time to time we enter into agreements with surgeons to develop new products. As consideration for product development activities rendered pursuant to these agreements, in certain instances we have agreed to pay such surgeons royalties on products developed by cooperative involvement between us and such surgeons. There can be no assurance that surgeons with whom we have entered into such an arrangement will not claim to be entitled to a royalty even if we do not believe that such products were developed by cooperative involvement between us and such surgeons. Any such claim against us, even those without merit, may cause us to incur substantial costs, and could place a significant strain on our financial resources, divert the attention of management from our core business and harm our reputation.

We may be subject to or otherwise affected by federal and state healthcare laws, including fraud and abuse, health information privacy and security, and disclosure laws, and could face substantial penalties if we are unable to fully comply with such laws.

Although we do not provide healthcare services, submit claims for third-party reimbursement, or receive payments directly from Medicare, Medicaid, or other third-party payors for our products or the procedures in which our products are used, healthcare regulation by federal and state governments significantly impact our business. Healthcare fraud and abuse, health information privacy and security, and disclosure laws potentially applicable to our operations include:

- the federal Anti-Kickback Law, as well as state analogs, which constrains our marketing practices and those of our independent sales agents and distributors, educational programs, pricing policies, and relationships with healthcare providers, by prohibiting, among other things, soliciting, receiving, offering or providing remuneration, intended to induce the purchase or recommendation of an item or service reimbursable under a federal (or state or commercial) healthcare program (such as the Medicare or Medicaid programs);

- the federal ban, as well as state analogs, on physician self-referrals, which prohibits physician referrals of Medicare and Medicaid patients to an entity providing certain designated health services if the physician or an immediate family member of the physician has any financial relationship with the entity;

- federal false claims laws which prohibit, among other things, knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent;

- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, and its implementing regulations, which created federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters and which also imposes certain regulatory and contractual requirements regarding the privacy, security and transmission of individually identifiable health information;

- the state and federal laws mandating the disclosure of device manufacturer payments or other transfers of value to physicians could impact how we market our products; and

- state laws analogous to each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy of certain health information, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

If our past or present operations, or those of our independent sales agents and distributors, are found to be in violation of any of such laws or any other governmental regulations that may apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from federal healthcare programs and/or the curtailment or restructuring of our operations. Similarly, if the healthcare providers or entities with whom

42

Table of Contents

we do business are found to be non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on us. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the Courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business.

In January 2004, AdvaMed, the principal U.S. trade association for the medical device industry, put in place a model code of conduct that sets forth standards by which its members should abide in the promotion of their products. We have in place policies and procedures for compliance that we believe are at least as stringent as those set forth in the AdvaMed Code, and we provide routine training to our sales and marketing personnel on our policies regarding sales and marketing practices. The AdvaMed Code was recently revised to make it more stringent with respect to interactions with healthcare professionals. The revised AdvaMed Code went into effect in July 2009. We have adopted the new aspects of the revised AdvaMed Code. Nevertheless, the sales and marketing practices of our industry have been the subject of increased scrutiny from federal and state government agencies, and we believe that this trend will continue. Proposed federal legislation would require detailed disclosure of payments made to health care professionals, and several states have adopted similar statutes. In addition, prosecutorial scrutiny and governmental oversight over some major device companies regarding the retention of healthcare professionals as consultants has affected and may continue to affect the manner in which medical device companies may retain healthcare professionals as consultants. We have in place policies to govern how we may retain healthcare professionals as consultants that reflect the current climate on this issue and are providing training on these policies. Any action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business.

If we become subject to product liability claims, we may be required to pay damages that exceed our insurance coverage.

Our business exposes us to potential product liability claims that are inherent in the testing, design, manufacture and sale of medical devices for spine surgery procedures. Spine surgery involves significant risk of serious complications, including bleeding, nerve injury, paralysis and even death. To date, our products have not been the subject of any material product liability claims. Currently, we carry product liability insurance in the amount of $10 million per occurrence and $10 million in the aggregate. Any product liability claim brought against us, with or without merit, could result in the increase of our product liability insurance rates or our inability to secure coverage in the future on commercially reasonable terms, if at all. In addition, if our product liability insurance proves to be inadequate to pay a damage award, we may have to pay the excess out of our cash reserves, which could harm our financial condition. If longer-term patient results and experience indicate that our products or any component of our products cause tissue damage, motor impairment or other adverse effects, we could be subject to significant liability. Even a meritless or unsuccessful product liability claim could harm our reputation in the industry, lead to significant legal fees and result in the diversion of management s attention from managing our business.

Because tissue-based products entail a potential risk of communicable disease to human recipients, we may be the subject of product liability claims regarding our tissue-based products.

Our tissue-based products may expose us to additional potential product liability claims. The development of tissue-based products entails a risk of additional product liability claims because of the risk of transmitting disease to human recipients, and substantial product liability claims may be asserted against us. In addition, successful product liability claims made against one of our competitors could cause claims to be made against us or expose us to a perception that we are vulnerable to similar claims. Even a meritless or unsuccessful product liability claim could harm our reputation in the industry, lead to significant legal fees and result in the diversion of management s attention from managing our business.

Table of Contents

Any claims relating to our improper handling, storage or disposal of biological, hazardous and radioactive materials could be time consuming and costly.

The manufacture of certain of our products, including our tissue-based implants, involves the controlled use of biological, hazardous and/or radioactive materials and waste. Our business and facilities and those of our suppliers are subject to foreign, federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials and waste products. Although we believe that our safety procedures for handling and disposing of these materials comply with legally prescribed standards, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, we could be held liable for damages or penalized with fines. This liability could exceed our resources and any applicable insurance. In addition, under some environmental laws and regulations, we could also be held responsible for all of the costs relating to any contamination at our past or present facilities and at third-party waste disposal sites, even if such contamination was not caused by us. We may incur significant expenses in the future relating to any failure to comply with environmental laws. Any such future expenses or liability could have a significant negative impact on our business, financial condition and results of operations.

We may be subject to damages resulting from claims that we, our employees or our independent distributors have wrongfully used or disclosed alleged trade secrets of our competitors or are in breach of non-competition or non-solicitation agreements with our competitors.

Many of our employees were previously employed at other medical device companies, including our competitors or potential competitors. Many of our independent distributors sell, or in the past have sold, products of our competitors. We may be subject to claims that we, our employees or our independent distributors have inadvertently or otherwise used or disclosed the trade secrets or other proprietary information of our competitors. In addition, we have been and may in the future be subject to claims that we caused an employee or independent distributor to break the terms of his or her non-competition agreement or non-solicitation agreement. Litigation may be necessary to defend against such claims. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights and/or personnel. A loss of key personnel and/or their work product could hamper or prevent our ability to commercialize products, which could have an adverse effect on our business, financial condition and results of operations.

Risks Related to Our Common Stock

We expect that the price of our common stock will fluctuate substantially and the market price of our common stock may decline in value in the future.

The market price of our common stock is likely to be highly volatile and may fluctuate substantially due to many factors, including:

- volume and timing of orders for our products;
- quarterly variations in our or our competitors results of operations;
- our announcement or our competitors announcements regarding new products, product enhancements, significant contracts, number of distributors, number of hospitals and surgeons using products, acquisitions or strategic investments;
- announcements of technological or medical innovations for the treatment of spine pathology;
- changes in earnings estimates or recommendations by securities analysts;
- our ability to develop, obtain regulatory clearance or approval for, and market new and enhanced products on a timely basis;

changes in healthcare policy in the U.S. and internationally;

Table of Contents

product liability claims or other litigation involving us;

sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;

changes in governmental regulations or in the status of our regulatory approvals, clearances or applications;

disputes or other developments with respect to intellectual property rights;

changes in the availability of third-party reimbursement in the U.S. or other countries;

changes in accounting principles; and

general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

We may become involved in securities class action litigation that could divert management s attention and harm our business.

The stock market in general, and the NASDAQ Global Market and the market for medical device companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, the market prices of securities of medical device companies have been particularly volatile. Factors contributing to this volatility include FDA and international actions with respect to the government regulation of medical devices and third-party reimbursement matters, changes in U.S. or international healthcare policies, and changes in the condition of the medical device industry generally. These broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company s securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation is often expensive and diverts management s attention and resources, which could materially harm our financial condition, results of operations and business.

Securities analysts may not continue to provide coverage of our common stock or may issue negative reports, which may have a negative impact on the market price of our common stock.

Securities analysts may not continue to provide research coverage of our common stock. If securities analysts do not cover our common stock, the lack of research coverage may cause the market price of our common stock to decline. The trading market for our common stock may be affected in part by the research and reports that industry or financial analysts publish about our business. If one or more of the analysts who elects to cover us downgrades our stock, our stock price would likely decline rapidly. If one or more of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our stock price to decline. In addition, recently-adopted rules mandated by the Sarbanes-Oxley Act and a global settlement reached in 2003 between the SEC, other regulatory agencies and a number of investment banks have led to a number of fundamental changes in how analysts are reviewed and compensated. In particular, many investment banking firms are required to contract with independent financial analysts for their stock research. It may be difficult for companies such as ours, with smaller market capitalizations, to attract independent financial analysts that will cover our common stock. This could have a negative effect on the market price of our stock.

Because of their significant stock ownership, our executive officers, directors and principal stockholders will be able to exert control over us and our significant corporate decisions.

Based on shares outstanding at December 31, 2009, our executive officers, directors and stockholders holding more than 5% of our outstanding common stock and their affiliates, in the aggregate, beneficially own approximately 47.0% of our outstanding common stock. As a result, these persons will have the ability to significantly impact the outcome of all matters requiring stockholder approval, including the election and

45

Table of Contents

removal of directors and any merger, consolidation, or sale of all or substantially all of our assets. This concentration of ownership may harm the market price of our common stock by, among other things:

delaying, deferring or preventing our change in control;

impeding a merger, consolidation, takeover or other business combination involving us;

causing us to enter into transactions or agreements that are not in the best interests of all of our stockholders; or

reducing our public float held by non-affiliates.

Certain members of our Board of Directors also serve as officers and directors of HealthpointCapital, its affiliates and other portfolio companies.

Four members of our Board of Directors also serve as officers and directors of our largest stockholder, HealthpointCapital, or its related entities and of other companies in which HealthpointCapital invests, including companies with which we compete or may in the future compete. As of December 31, 2009, HealthpointCapital owned approximately 38.1% of our outstanding common stock. HealthpointCapital and its affiliates may make investments and hold interests in businesses that compete directly or indirectly with us. HealthpointCapital owns a majority interest in Scient x, a spinal implant company. In December 2009 we entered into an agreement to purchase 100% of the issued and outstanding shares of Scient x. See Note 15 of the Financial Statements, Subsequent Events-Agreement to Acquire Scient x . The Chairman of our Board of Directors, Mortimer Berkowitz III, is a managing member of HGP, LLC and HGP II, LLC, the general partners of HealthpointCapital Partners, LP and HealthpointCapital Partners II, LP, respectively. John H. Foster, a member of our Board of Directors, is a managing member of HGP, LLC and HGP II, LLC and the Chairman, Chief Executive Officer, a member of the Board of Managers and a Managing Director of HealthpointCapital, LLC. Our directors R. Ian Molson and Stephen E. O Neil also serve on the board of managers of HealthpointCapital, LLC. Messrs. Berkowitz, Foster, O Neil and Molson also have financial interests in HGP, LLC, HGP II, LLC and HealthpointCapital, LLC and direct limited partnership interests in HealthpointCapital, LLC. Such directors may have obligations to HealthpointCapital, HealthpointCapital, LLC, HGP, LLC, HGP II, LLC and to investors in those companies and other portfolio companies of HealthpointCapital and its affiliates, the fulfillment of which might not be in the best interests of us or our stockholders. Messrs. Berkowitz, Foster and Molson are members of the Board of Directors of either Scient x or an affiliate of Scient x.

Because of these possible conflicts of interest, such directors may direct potential business and investment opportunities to other entities rather than to us or such directors may undertake or otherwise engage in activities or conduct on behalf of such other entities that is not in, or which may be adverse to, our best interests. Whether a director directs an opportunity to us or to another company, our directors may face claims of breaches of fiduciary duty and other duties relating to such opportunities. Our amended and restated certificate of incorporation requires us to indemnify our directors to the fullest extent permitted by law, which may require us to indemnify them against claims of breaches of such duties arising from their service on our Board of Directors. HealthpointCapital or its affiliates may pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. Furthermore, HealthpointCapital may have an interest in us pursuing acquisitions, divestitures, financings or other transactions that, in its judgment, could enhance its equity investment, even though such transactions might involve risks to us and our stockholders generally. In addition, if we were to seek a business combination with a target business with which one or more of our existing stockholders or directors may be affiliated, conflicts of interest could arise in connection with negotiating the terms of and completing the business combination. Conflicts that may arise may not be resolved in our favor.

Table of Contents

Anti-takeover provisions in our organizational documents and change of control provisions in some of our employment agreements and agreements with distributors, and in some of our outstanding debt agreements, as well as the terms of our redeemable preferred stock, may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely.

Certain provisions of our amended and restated certificate of incorporation and restated by-laws could discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which our stockholders might otherwise receive a premium for their shares. These provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. Stockholders who wish to participate in these transactions may not have the opportunity to do so. Furthermore, these provisions could prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions:

- allow the authorized number of directors to be changed only by resolution of our Board of Directors;
- allow vacancies on our Board of Directors to be filled only by resolution of our Board of Directors;
- authorize our Board of Directors to issue, without stockholder approval, blank check preferred stock that, if issued, could operate as a poison pill to dilute the stock ownership of a potential hostile acquirer to prevent an acquisition that is not approved by our Board of Directors;
- require that stockholder actions must be effected at a duly called stockholder meeting and prohibit stockholder action by written consent;
- establish advance notice requirements for stockholder nominations to our Board of Directors and for stockholder proposals that can be acted on at stockholder meetings; and
- limit who may call stockholder meetings.

Some of our employment agreements and all of our restricted stock agreements and incentive stock option agreements provide for accelerated vesting of benefits, including full vesting of restricted stock and options, upon a change of control. A limited number of our agreements with our distributors include a provision that extends the term of the distribution agreement upon a change in control and makes it more difficult for us or our successor to terminate the agreement. These provisions may discourage or prevent a change of control.

In addition, in the event of a change of control, we would be required to redeem all outstanding shares of our redeemable preferred stock for an aggregate of $29.9 million, at the price of $9.00 per share. Further, our amended and restated certificate of incorporation permits us to issue additional shares of preferred stock. The terms of our redeemable preferred stock or any new preferred stock we may issue could have the effect of delaying, deterring or preventing a change in control.

Risks Related to our Proposed Acquisition of Scient x

We will issue a large number of shares of common stock in connection with our proposed acquisition of substantially all of the shares of Scient x, or the Share Purchase, which will result in substantial dilution to our existing stockholders. Our stockholders may not realize a benefit from the Share Purchase commensurate with the ownership dilution they will experience in connection with the Share Purchase.

The consideration for our proposed acquisition of Scient x consists of shares of our common stock. We will issue 24,000,000 shares of our common stock, or the Share Purchase Shares, in consideration for 100% of the outstanding shares of Scient x, which represents 45.7% of our voting shares prior to the issuance and will represent 31.3% of our voting shares following the issuance, based on our outstanding capital stock at December 15, 2009. Our issuance of the Share Purchase Shares will result in substantial percentage dilution of our existing stockholders ownership interests. Our issuance of the Share Purchase Shares may also have an adverse impact on our net income per share in fiscal periods

that include (or follow) the closing of the Share Purchase.

Table of Contents

If we are unable to realize the strategic and financial benefits currently anticipated from the Share Purchase, our stockholders will have experienced substantial dilution of their ownership interest without receiving commensurate benefit.

The actual value of the consideration we will pay to the Scient x shareholders may exceed the value allocated to it at the time we entered into the Share Purchase Agreement.

Under the share purchase agreement that we entered into with Scient x, or the Share Purchase Agreement, the number of shares of common stock we will issue as consideration at closing is fixed, and there will be no adjustment for changes in the market price of our common stock. Neither we nor the Scient x shareholders are permitted to walk away from the Share Purchase nor are we permitted to re-solicit the vote of our stockholders solely because of changes in the market price of our common stock between the signing of the Share Purchase Agreement and the closing. Our common stock has historically experienced significant volatility. Stock price changes may result from a variety of factors that are beyond our control, including changes in our business, operations and prospects, regulatory considerations and general market and economic conditions. The value of the shares we issue to acquire Scient x may be significantly higher at the closing than when we entered into the Share Purchase Agreement.

If the conditions to the closing of the Share Purchase are not met, the Share Purchase will not occur, which could adversely impact the market price of our common stock as well as our business, financial condition and results of operations.

Specified conditions must be satisfied or waived before the Share Purchase can be completed, including, without limitation, obtaining the requisite approval of our stockholders with respect to our proposed issuance of common stock in the Share Purchase. We cannot assure you that each of the conditions will be satisfied.

If the conditions are not satisfied or waived in a timely manner and the Share Purchase is delayed, we may lose some or all of the intended or perceived benefits of the transaction which could cause our stock price to decline and harm our business. If the acquisition is not completed for any reason, our stock price may decline to the extent that the current market price reflects a market assumption that the Share Purchase will be completed.

In addition, we will be required to pay our costs related to the acquisition even if the Share Purchase is not completed, such as amounts payable to legal and financial advisors and independent accountants, and such costs are significant. All of these costs will be incurred whether or not the transaction is completed.

The integration of us and Scient x may not be completed successfully, cost-effectively or on a timely basis.

After completing the acquisition of Scient x, we will have significantly more assets and employees to manage than we did prior to the acquisition. The integration process will require us to significantly expand the scope of our operations and financial systems. Our management will be required to devote a significant amount of time and attention to the process of integrating the operations of us and Scient x. There is a significant degree of difficulty and management involvement inherent in that process. These difficulties include, among others:

- the diversion of management s attention from the day-to-day operations of the combined company;
- the management of a significantly larger company than before completion of the Share Purchase;
- the assimilation of Scient x employees and the integration of two business cultures;
- challenges in attracting and retaining key personnel;
- the integration of information, accounting, finance, sales, billing, payroll and regulatory compliance systems;

challenges in keeping existing customers and obtaining new customers; and

challenges in combining product offerings and sales and marketing activities.

Table of Contents

There is no assurance that we will successfully or cost-effectively integrate Scient x s operations with our own. For example, the costs of achieving systems integration may substantially exceed our current estimates. As a non-public, non-U.S. company, Scient x has not had to comply with the requirements of the Sarbanes-Oxley Act of 2002 for internal control and other procedures. Bringing its systems into compliance with those requirements may cause us to incur substantial additional expense. In addition, the integration process may cause an interruption of, or loss of momentum in, the activities of our business after completion of the acquisition. If our management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer and its results of operations and financial condition may be harmed.

Failure to complete the Share Purchase could harm our common stock price and future business and operations.

If the Share Purchase is not completed, we may be subject to the following risks:

- the price of our common stock may decline;
- we will not realize our expected benefits of the Share Purchase;
- under certain circumstances we will be required to pay HealthpointCapital a termination fee of $3.2 million; and
- the costs incurred by us, and certain costs incurred by the Scient x shareholders, related to the Share Purchase, such as certain accounting fees, must be paid by us even if the Share Purchase is not completed.

The Share Purchase may be completed even though material adverse changes may result from the announcement of the Share Purchase, industry-wide changes and other causes.

In general, either party can refuse to complete the Share Purchase if there is a material adverse change affecting the other party between December 17, 2009, the date of the Share Purchase Agreement, and the closing. However, certain types of changes do not permit either party to refuse to complete the Share Purchase, even if such change would have a material adverse effect on us or Scient x, including:

- changes resulting from general political, business, economic or securities markets conditions or conditions generally affecting the spinal implant industry which do not disproportionately affect either Scient x or us, as applicable, relative to other participants in the spinal implant industry;
- natural disasters, acts of war or other hostilities or terrorism;
- the loss of customers, prospective customers, suppliers, prospective suppliers, employees, prospective employees, business relationships or prospective business relationship as a result of the announcement, pendency or consummation of the Share Purchase;
- changes in any applicable accounting regulations or principles or the interpretation thereof; or
- a failure to meet revenue, earnings or other projections, excluding any underlying effect that may have caused such change.

If adverse changes occur but we and the Scient x shareholders still complete the Share Purchase, our stock price may suffer.

The market price of our common stock may decline as a result of the Share Purchase.

The market price of our common stock may decline as a result of the Share Purchase for a number of reasons including if:

- we do not achieve the perceived benefits of the Share Purchase as rapidly or to the extent anticipated by financial or industry analysts;

Table of Contents

the effect of the Share Purchase on our business and prospects is not consistent with the expectations of financial or industry analysts; or

investors react negatively to the effect on our business and prospects from the Share Purchase.

As shares of our common stock issued in the Share Purchase become eligible for resale, the sale of those shares could adversely impact our stock price.

All of the shares of our common stock issued in the Share Purchase will be restricted securities and may not be sold absent registration under the Securities Act or pursuant to Rule 144 or another available exemption from registration. We have agreed to enter into a registration rights agreement among us and the Scient x shareholders effective as of the closing date pursuant to which we will agree under certain circumstances to register for resale the Share Purchase Shares and all of our other shares held by the Scient x shareholders that are restricted from sale under the Securities Act, including all of our shares currently held by HealthpointCapital. Accordingly, the Share Purchase Shares, which represent a substantial number of shares of our common stock, will become eligible for resale 180 days after the closing date under Rule 144, and such shares and our other shares held by HealthpointCapital will become eligible for resale without restrictions if we file and have declared effective a registration statement with the SEC for the resale of such shares. Our stock price may suffer a significant decline as a result of the sudden increase in the number of shares sold in the public market or market perception that the increased number of shares available for sale will exceed the demand for our common stock.

Risks Related to the Combined Business Following the Share Purchase

We may face challenges in integrating our business with Scient x and, as a result, we may not realize the expected benefits of the proposed Share Purchase.

Even though our and Scient x s businesses are relatively distinct, integrating the operations and personnel of us and Scient x will require a significant investment of management s time and effort as well as the investment of capital, particularly with respect to information systems. The successful integration of us and Scient x will require, among other things, coordination of certain manufacturing operations and sales and marketing operations and the integration of Scient x operations into our organization. The diversion of the attention of our and Scient x s senior management and any difficulties encountered in the process of combining the companies could cause the disruption of, or a loss of momentum in, the activities of the combined business.

The inability to successfully integrate the operations and personnel of us and Scient x, or any significant delay in achieving integration, could have a material adverse effect on the combined business after the completion of the acquisition, and, as a result, on our cash flows, results of operations and financial position.

The future profitability, growth and success of our combined business will also depend on our ability to achieve further product cost reductions by our combined operations.

The future profitability and growth of our combined business depends upon our ability to achieve further product cost reductions by our combined operations, including improved operating and manufacturing efficiencies and marketing and research and development synergies. If product cost reductions are not achieved on a timely basis, the future profitability of our combined business will be delayed and may not be delivered.

The combined business will be subject to an increased risk of costly and damaging product liability claims and may not be able to maintain sufficient product liability insurance to cover claims against us.

With the expansion of our product offerings, the combined company will be subject to an increased risk of product liability claims. If any of our or Scient x s products is found to have caused or contributed to injuries or deaths, we could be held liable for substantial damages. Claims of this nature may also adversely affect our reputation, which could damage our position in the market. Although neither Alphatec nor Scient x has been a

Table of Contents

party to any material product liability claims, it is reasonably likely that the combined business will be party to future product liability claims. Although we maintain insurance, including product and excess liability insurance, we cannot provide assurance that any claim that may be brought against us will not result in court judgments or settlements in amounts that are in excess of the limits of our insurance coverage. Our insurance policies also have various exclusions, and we may be subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance.

Any product liability claim brought against the combined company, with or without merit, could result in the increase of our product liability insurance rates or the inability to secure additional insurance coverage in the future. A product liability claim, whether meritorious or not, could be time consuming, distracting and expensive to defend and could result in a diversion of management and financial resources away from our primary business, in which case our business may suffer.

We expect to increase the level of our insurance coverage following the completion of the proposed Share Purchase, however, future claims could exceed our applicable insurance coverage.

The combined companies will continue to maintain insurance for property and general liability, directors and officers liability, products liability, workers compensation and other coverage in amounts and on terms deemed adequate by management based on our expectations for future claims. Although we may increase the level of our insurance coverage following the completion of the Share Purchase, future claims could exceed our applicable insurance coverage, or in some instances our coverage may not cover the applicable claims.

We expect to incur significant costs associated with the proposed Share Purchase.

We estimate that us and Scient x will incur direct transaction costs of approximately $6.8 million, of which $3.5 million relates to total expenses to be incurred by us in connection with the proposed Share Purchase. In addition, the combined business may incur charges to operations that we cannot currently reasonably estimate in the quarter in which the Share Purchase is completed or the following quarters to reflect costs associated with integrating the two businesses. There can be no assurance that the combined business will not incur additional charges relating to the transaction in subsequent periods, which could have a material adverse effect on our cash flows, results of operations and financial position.

The success of the combined business will depend on the services of each of our senior executives as well as certain key engineering, scientific, manufacturing, clinical and marketing personnel, the loss of whom could negatively affect the combined business.

Our success has always depended upon the skills, experience and efforts of our senior executives and other key personnel, including our research and development and manufacturing executives and managers. Following the completion of the Share Purchase, this will be even more important as we work to integrate our businesses. For both us and Scient x, much of our expertise is concentrated in relatively few employees, the loss of whom for any reason could negatively affect our business. The failure of key employees to remain with the combined business could be harmful to the success of the combined business. Competition for our highly skilled employees is intense and we cannot prevent the future resignation of any employee. Most of the combined business s employees have agreements which impose obligations that may prevent a former employee from working for a competitor for a period of time; however, these clauses may not be enforceable, or may be enforceable only in part.

The combined business will continue to require significant capital to build the business, and financing may not be available to us on reasonable terms, if at all.

The combined business will continue to require significant working capital for the manufacture of implants and instrumentation and marketing and research and development activities as well as the expansion and integration of Scient x s operations. If our existing resources are insufficient to satisfy our liquidity requirements,

Table of Contents

we may need to sell additional equity or debt securities. Any sale of additional equity or debt securities may result in additional dilution to our stockholders, and we cannot be certain that we will be able to obtain additional public or private financing in amounts, or on terms, acceptable to us, or at all.

Our executive officers and directors, together with their affiliates and related persons, own a large percentage of our voting common stock and could limit new stockholders influence on corporate decisions or could delay or prevent a change in corporate control.

Our directors and executive officers and their affiliates, including HealthpointCapital, will beneficially own, in the aggregate, approximately 57.8% of our outstanding shares of common stock (not including options, warrants or other convertible securities) assuming the issuance of 24,000,000 shares of our common stock to acquire all of the issued and outstanding shares of Scient x, based on our outstanding capital stock at February 9, 2010. The interests of this group of stockholders may not always coincide with our corporate interests or the interests of other stockholders, and they may act in a manner with which you may not agree or that may not be in the best interests of other stockholders. This concentration of ownership may have the effect of:

delaying, deferring or preventing, or alternatively, accelerating or causing, a change in control of our company;

entrenching our management and/or board of directors;

impeding a merger, consolidation, takeover or other business combination involving our company; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company.

Scient x was named as a defendant in a qui tam complaint, and despite the fact that the matter was dismissed without prejudice, the government continues to review the allegations raised in the complaint.

On August 13, 2009, a complaint filed under the qui tam provisions of the Federal False Claims Act, or the FCA, that had been filed by private parties against Scient x s subsidiary, Scient x USA, Inc., or Scient x USA, was unsealed by the United States District Court for the Middle District of Florida (*Hudak v. Scient x USA, Inc., et al.* (Civil Action No. 6:08-cv-1556-Orl-22DAB, U.S. District Court, W.D. Florida). Such complaint alleged violations of the FCA arising from allegations that Scient x USA engaged in improper activities related to consulting payments to surgeon customers. Under the FCA, the United States Department of Justice, Civil Division, or DOJ, had a certain period of time in which to decide whether to intervene and conduct the action against Scient x USA, or to decline to intervene and allow the private plaintiffs to proceed with the case. On August 7, 2009, the DOJ filed a notice informing the court that it was declining to intervene in the case. On December 4, 2009, the private plaintiffs who filed the action moved the court to dismiss the matter without prejudice and the Attorney General consented to such dismissal on December 14, 2009.

The matter was dismissed without prejudice on December 15, 2009. Despite the dismissal of this matter, the DOJ is continuing its review of the facts alleged by the original plaintiffs in this matter. Scient x USA believes that its business practices were in compliance with the FCA and intends to vigorously defend itself with respect to the allegations contained in the qui tam complaint if further litigation is instituted. To date, Scient x USA has not been subpoenaed by any governmental agency in connection with the governmental review. The ultimate outcome of any governmental review is difficult to estimate. A negative outcome of a governmental review is likely to have a material effect on the combined business s cash flows, results of operations and financial position.

If Scient x fails to comply with regulatory requirements, regulatory agencies may take action against it, which could significantly harm its business.

Scient x s products are subject to continual requirements and review by the FDA and other regulatory bodies. Even if Scient x receives regulatory approval for one of its products, the approval may be subject to

Table of Contents

limitations on the indicated uses for which the product may be marketed or to the conditions of approval or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product. For example, on October 5, 2009, the FDA issued an order requiring manufacturers of certain spinal implant products, including Scient x USA, to conduct postmarket surveillance studies to develop additional safety and effectiveness data. As a result of this notice from the FDA, Scient x plans to conduct a postmarket study on its Isobar Evolution rod. In addition, the FDA recently issued a deficiency letter requesting additional data for the Isobar Evolution rod. Scient x plans to respond to the FDA and has received permission to continue marketing the products while addressing the FDA s request. If Scient x is not able to successfully satisfy the requests of the FDA for clinical information and/or data, Scient x may not be able to continue to market these products in the United States, which could have an impact on the combined business s cash flows, results of operations and financial position.

Scient x conducts a significant amount of its sales activity outside of the United States, which subjects it to additional business risks and may adversely affect the combined business s results of operations and financial condition due to increased costs.

During the year ended December 31, 2008, Scient x derived approximately $35.6 million, or 79.4% of its net sales from sales of its products outside of the United States. The combined business intends to continue to pursue growth opportunities in sales internationally, which could expose it to additional risks associated with international sales and operations that we do not currently face. Scient x s international operations are, and the combined business s international operations will continue to be, subject to a number of risks and potential costs, including:

- changes in foreign medical reimbursement policies and programs;
- unexpected changes in foreign regulatory requirements;
- differing local product preferences and product requirements;
- diminished protection of intellectual property in some countries outside of the United States;
- differing payment cycles;
- trade protection measures and import or export licensing requirements;
- difficulty in staffing, training and managing foreign operations;
- differing legal regulations and labor relations;
- potentially negative consequences from changes in tax laws (including potentially taxes payable on earnings of foreign subsidiaries upon repatriation); and
- political and economic instability.

In addition, Scient x is subject to risks arising from currency exchange rate fluctuations, which could increase the combined business s costs and may adversely affect its results of operations. The U.S. dollar value of Scient x s foreign-generated revenues varies with currency exchange rate fluctuations. Measured in local currency, the majority of Scient x s foreign-generated revenues were generated in Europe. Significant increases in the value of the U.S. dollar relative to foreign currencies could have a material adverse effect on the combined business s results of operations. Scient x s consolidated net sales were negatively affected by approximately 1.3% during the year ended December 31, 2008 as a result of the

impact of foreign currency translation.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and, in particular, the description of our Business set forth in Item 1, the Risk Factors set forth in this Item 1A and our Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 contain or incorporate a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Exchange Act, including statements regarding:

- our ability to market, commercialize and achieve market acceptance of any of our products or any product candidates that we are developing or may develop in the future;
- our ability to successfully achieve and maintain regulatory clearance or approval for our products in applicable jurisdictions;
- our estimates of market sizes and anticipated uses of our products, including without limitation the market size of the aging spine market and our ability to successfully penetrate such market;
- our business strategy and our underlying assumptions about market data, demographic trends, reimbursement trends, pricing trends, and trends relating to customer collections;
- trends related to the treatment of spine disorders, including without limitation the aging spine market;
- our estimates regarding anticipated operating losses, future revenue, expenses, capital requirements, and liquidity;
- our ability to control our costs, achieve profitability, and the potential need to raise additional funding;
- our ability to maintain an adequate sales network for our products, including to attract and retain independent distributors;
- our ability to enhance our international sales networks and product penetration;
- our ability to attract and retain a qualified management team, as well as other qualified personnel and advisors;
- our ability to enter into licensing and business combination agreements with third parties and to successfully integrate the acquired technology and/or businesses;
- our management team s ability to accommodate growth and manage a larger organization;
- our ability to protect our intellectual property, and to not infringe upon the intellectual property of third parties;

our ability to meet the financial covenants under our and Scient x s credit facility;

our ability to conclude that we have effective disclosure controls and procedures;

our ability to establish the industry standard in clinical and legal compliance and corporate governance programs;

loss of key personnel;

liability resulting from litigation;

failure to complete the Share Purchase or to realize the benefits of the proposed Share Purchase;

our failure to successfully integrate us and Scient x; and

liability resulting from a governmental review of our or Scient x s business practices.

Any or all of our forward-looking statements in this Annual Report may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Annual Report will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

Table of Contents

We also provide a cautionary discussion of risks and uncertainties under Risk Factors in Item 1A of this Annual Report. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed there could also adversely affect us.

Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. There are a number of factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements, many of which are beyond our control, including the factors set forth under Item 1A Risk Factors. In addition, the forward-looking statements contained herein represent our estimate only as of the date of this filing and should not be relied upon as representing our estimate as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Item 1B. Unresolved Staff Comments

We have not received from the SEC any written comments that have not been resolved regarding our filings under the Exchange Act.

Item 2. Properties

Our corporate office and our manufacturing facilities are located in Carlsbad, California. In the first quarter of 2008 we entered into two new leases for adjacent operating locations in Carlsbad and consolidated all of our operations into such locations by the second quarter of 2009. The table below provides selected information regarding our current material operating leased locations.

Location	Use	Approximate Square Footage	Lease Expiration
Carlsbad, California	Corporate headquarters and product design	76,693	January 2016
Carlsbad, California	Product design and manufacturing	73,480	January 2017

Item 3. Legal Proceedings

Litigation

On April 12, 2006, Alphatec Spine and HealthpointCapital, L.P., our majority stockholder, and its affiliate, HealthpointCapital, LLC, were served with a complaint by Drs. Darryl Brodke, Alan Hilibrand, Richard Ozuna and Jeffrey Wang, or the claimant surgeons, in the Superior Court of California in the County of Orange, claiming, among other things, that, pursuant to certain contractual arrangements Alphatec Spine allegedly entered into with the claimant surgeons in 2001, it was required to pay the claimant surgeons quarterly royalties in an aggregate amount of 6% of the net sales of polyaxial screws (as defined in the alleged contractual arrangement), which the claimant surgeons allege were developed with their assistance prior to the cessation of such development activities in March 2002. In August 2009, prior to going to trial on the claims that had not been dismissed, the Company, HealthpointCapital, LLC and all of the claimant surgeons settled all matters related to this litigation. Under the settlement, all lawsuits involving the parties that were related to this matter were dismissed with prejudice. The financial terms of the settlement are as follows: (i) a cash payment of $1.5 million; (ii) the issuance of $0.5 million of shares of the Company s common stock described below; and (iii) a quarterly royalty of 1.5% on net sales of certain products through May 15, 2012, with a guaranteed minimum payment of $150,000 per quarter. In exchange, the Company received rights to all intellectual property related to the development work performed by the claimant surgeons. On August 31, 2009, pursuant to the settlement documents, we issued 114,766 shares of our common stock at a price per share of $4.35. The resale of such shares has not been covered by a registration statement. Six months after the issuance, the value of such stock ($0.5 million) will be measured against the then-current value of our common stock on such date. If there is a

Table of Contents

negative variance, additional shares will be issued to ensure that the value of all shares on the six-month anniversary date equals $0.5 million. If there is a positive variance, then shares will be forfeited to ensure that the value of all shares on such six-month anniversary date equals $0.5 million.

On February 12, 2010, a complaint was filed in the U.S. District Court for the Central District of California, by Cross Medical Products, LLC, or Cross, alleging that we owe Cross royalty payments on sales of certain products containing polyaxial pedicle screw components. While we believe that the plaintiff s allegations are without merit, the outcome of the litigation cannot be predicted at this time and any outcome in favor of Cross could have a significant adverse effect on our financial condition and results of operations.

Item 4. Reserved

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the NASDAQ Global Market under the symbol ATEC. The following table sets forth the high and low sales prices for our common stock as reported on the NASDAQ Global Market for the periods indicated.

Year Ended December 31, 2009	High	Low
First quarter	$ 3.18	$ 1.10
Second quarter	3.83	1.50
Third quarter	5.51	2.95
Fourth quarter	5.48	4.05

Year Ended December 31, 2008	High	Low
First quarter	$ 6.53	$ 4.50
Second quarter	5.58	4.03
Third quarter	5.15	2.16
Fourth quarter	5.00	1.51

Stockholders

As of February 26, 2010, there were approximately 202 holders of record of an aggregate 54,136,268 shares of our common stock.

Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Sales of Unregistered Securities

In February 2009, Alphatec Spine entered into a License Agreement with Helix Point, LLC, or the Helifuse/Helifix License Agreement that provides Alphatec Spine with a worldwide license to develop and commercialize Helix Point s proprietary intellectual property related to a device for the treatment of spinal stenosis. The financial terms of the Helifuse/Helifix License Agreement included the issuance of $0.4 million of shares of our common stock to Helix Point. In March 2009, we issued 174,129 shares of common stock at an average price per share of $2.01 and an aggregate value of $0.4 million.

Pursuant to an agreement dated December 5, 2008, we entered into a Loan and Security Agreement with Silicon Valley Bank, or SVB, and Oxford Finance Corporation, or Oxford. In connection with such Loan and Security Agreement SVB received a warrant to purchase 190,476 shares of our common stock at $1.89 per share, exercisable for a term of 10 years and Oxford received a warrant to purchase 285,714 shares of our common stock at $1.89 per share, exercisable for a term of 10 years. In September 2009, one of the lenders to the Credit Facility exercised all of its warrants pursuant to the cashless exercise provision of its warrant agreement resulting in the issuance of 113,388 shares of our common stock to the lender. The net value of the shares issued was $530,000.

In June 2009, we entered into a cross license agreement, or the ISI License Agreement, with International Spinal Innovations, LLC, or ISI, that provides us with a worldwide license to develop and commercialize ISI s

Table of Contents

proprietary intellectual property related to a stand-alone anterior lumbar interbody fusion device. The financial terms of the ISI License Agreement included the issuance of 260,000 shares of our common stock following the execution of the ISI License Agreement. We issued 260,000 shares of our common stock at a price per share of $3.32 and an aggregate value of $863,200.

During the second quarter of 2009, we successfully completed one of our development milestones relating to our OsseoScrew License Agreement with PST and recorded an IPR&D charge totaling $3.6 million, which consisted of a cash payment of $1.8 million and the issuance of $1.8 million, or 567,821 shares of our common stock.

On August 31, 2009, pursuant to the settlement documents entered into in connection with the litigation with claimant surgeons described above in Part I, Item 3 of this Annual Report on Form 10-K, we issued 114,766 shares of our common stock at a price per share of $4.35 and an aggregate value of $0.5 million.

These issuances of securities were made in reliance on an exemption from the registration provisions of the Securities Act set forth in Rule 506 of Regulation D promulgated thereunder and/or Section 4(2) of the Securities Act. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. The sales of these securities were made without general solicitation or advertising.

Issuer Purchases of Equity Securities

Under the terms of our Amended and Restated 2005 Employee, Director and Consultant Stock Plan, or the Stock Plan, we may award shares of restricted stock to our employees, directors and consultants. These shares of restricted stock are subject to a lapsing right of repurchase by us. We may exercise this right of repurchase in the event that a restricted stock recipient s employment, directorship or consulting relationship with us terminates prior to the end of the vesting period. If we exercise this right, we are required to repay the purchase price paid by or on behalf of the recipient for the repurchased restricted shares. Repurchased shares are returned to the Stock Plan and are available for future awards under the terms of the Stock Plan. Common shares repurchased during the quarter ended December 31, 2009 were as follows:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of Shares that may Yet be Purchased Under Plans or Programs
October 2009		$		
November 2009		$		
December 2009		$		

(1) Not included in the table above are 18,990 forfeited and retired shares in connection with the payment of minimum statutory withholding taxes due upon the vesting of certain stock awards or the exercise of certain stock options. In lieu of making a cash payment with respect to such withholding taxes, the holders of such stock forfeited a number of shares at the then current fair market value to pay such taxes.

Table of Contents

Item 6. Selected Financial Data

The following table sets forth consolidated financial data with respect to us for each of the five years in the period ended December 31, 2009. The selected consolidated financial data for each of the five years in the period ended December 31, 2009 set forth below have been derived from our audited consolidated financial statements, and may not be indicative of future operating results. The selected consolidated financial data set forth below should be read in conjunction with our audited consolidated financial statements and related notes thereto found at Item 8 Financial Statements and Supplementary Data and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K.

	Successor Year Ended December 31, 2009	Successor Year Ended December 31, 2008	Successor Year Ended December 31, 2007	Successor Year Ended December 31, 2006	Combined Year Ended December 31, 2005	Successor March 18, 2005 to December 31, 2005	Predecessor January 1, 2005 to March 17, 2005
	(In thousands, except per share amounts)						
Revenues	$ 132,156	$ 101,313	$ 80,031	$ 74,005	$ 42,326	$ 36,276	$ 6,050
Operating loss	(9,557)	(27,806)	(19,686)	(22,114)	(15,043)	(13,967)	(1,076)
Net loss	(13,289)	(29,288)	(20,202)	(25,816)	(14,054)	(12,865)	(1,189)
Accretion to redemption value of redeemable convertible preferred stock, Rolling common and Series C common stock				(3,450)	(7,601)	(7,601)	
Net loss available to common stockholders	$ (13,289)	$ (29,288)	$ (20,202)	$ (29,266)	$ (21,655)	$ (20,466)	$ (1,189)
Net loss per common share:							
Basic and diluted	$ (0.27)	$ (0.63)	$ (0.54)	$ (1.07)	$ (1.19)	$ (1.12)	$ (0.13)
Weighted-average shares used in computing net loss per share:							
Basic and diluted	49,292	46,290	37,283	27,238	18,201	18,201	9,211

Note: The Predecessor refers to Alphatec Spine, Inc. (formerly known as Alphatec Manufacturing, Inc.) prior to its acquisition by Alphatec Holdings, Inc. on March 18, 2005. The consolidated financial statements of the Predecessor include the accounts of Alphatec Spine, Inc. and its wholly owned subsidiaries, Alphatec Pacific, Inc., Milverton Limited and Nexmed, Inc. The Successor refers to Alphatec Holdings, Inc. and Alphatec Spine, Inc. and its wholly owned subsidiaries, Alphatec Pacific, Inc., Milverton Limited and Nexmed, Inc. The consolidated statements of operations for the period from March 18, 2005 to December 31, 2005 also includes the results of the Cortek business from September 9, 2005, the date Alphatec Spine, Inc. acquired substantially all of the assets of Cortek.

Certain prior year balances have been reclassified in the accompanying selected consolidated financial data table to conform to the current year presentation. In our SEC filings for the year ended December 31, 2007 and prior years, our operating expenses in Japan were classified as general and administrative expenses. In this Annual Report on Form 10-K, we separated the Japanese sales and marketing expenses from the general and administrative expenses. This reclassification has no impact upon total operating expenses and net loss, and resulted in a reclassification of $3.6 million, $2.9 million and $1.2 million of general and administrative expense to sales and marketing expense for the years ended December 31, 2007, 2006 and 2005, respectively.

	As of December 31,				
	2009	2008	2007	2006	2005
	(in thousands)				
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 10,085	$ 18,315	$ 25,843	$ 16,943	$ 2,180
Working capital	29,543	34,299	39,802	24,108	4,249

Total assets	161,888	155,548	147,240	129,277	109,139
Long-term debt, less current portion	23,631	26,488	1,954	3,111	1,728
Note payable to related party, less current portion					781
Redeemable convertible preferred, Rolling common and Series C common stock					99,413
Redeemable preferred stock	23,603	23,605	23,612	23,703	
Total stockholders equity (deficit)	74,829	71,469	94,850	74,996	(19,257)

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Our management s discussion and analysis of our financial condition and results of operations include the identification of certain trends and other statements that may predict or anticipate future business or financial results that are subject to important factors that could cause our actual results to differ materially from those indicated. See Item 1A -Risk Factors included elsewhere in this Annual Report on Form 10-K.

Overview

We are a medical technology company focused on the design, development, manufacturing and marketing of products for the surgical treatment of spine disorders, with a focus on products that treat conditions that affect the aging spine. Our broad product portfolio and pipeline includes a variety of spinal disorder products and systems focused on solutions addressing the cervical, thoracolumbar, intervertebral, minimally invasive, vertebral compression fracture, disorders related to poor bone quality, and spinal stenosis markets. Our principal product offerings are focused on the global market for orthopedic spinal disorder solution products, which is estimated to be more than $8.5 billion in revenue in 2009 and is expected to grow between 10%-12% over the next year. Our surgeons culture emphasizes collaboration with spinal surgeons to conceptualize, design and co-develop a broad range of products. We have a state-of-the-art, in-house manufacturing facility that provides us with a unique competitive advantage, and enables us to rapidly deliver solutions to meet surgeons and patients critical needs. Our products and systems are made of titanium, titanium alloy, stainless steel, cobalt chrome and a strong, heat resistant, radiolucent, biocompatible plastic called polyetheretherketone, or PEEK. We also sell products made of allograft, precision-milled and processed human bone that surgeons can use in place of metal and synthetic materials. We also sell bone-grafting products that are comprised of both tissue-based and synthetic materials. We believe that our products and systems have enhanced features and benefits that make them attractive to surgeons and that our broad portfolio of products and systems provide a comprehensive solution for the safe and successful surgical treatment of spine disorders. All of our implants that are sold in the U.S. that require U.S. Food and Drug Administration, or FDA, clearance have been cleared by the FDA. In the U.S. our products have been used in over 12,900 and 10,700 surgeries in 2009 and 2008, respectively. In addition to selling our products in the U.S., we also sell our products in Japan, the European Union, South America and Hong Kong.

On December 17, 2009, we entered into a definitive agreement to acquire Scient x, a global medical device company based in Guyancourt, France that designs, develops and manufacturers surgical implants to treat disorders of the spine. The transaction is structured as an all stock transaction such that 100% of outstanding Scient x stock will be exchanged pursuant to a fixed ratio for 24,000,000 shares of our common stock. The transaction is currently expected to close by the end of the first quarter of 2010 and is subject to the approval of our shareholders.

Although our products generally are purchased by hospitals and surgical centers, orders are typically placed at the request of surgeons who then use our products in a surgical procedure. During the years ended December 31, 2009 and December 31, 2008, no single surgeon, hospital or surgical center represented greater than 10% of our consolidated revenues. Additionally, we sell a broad array of products, which diminishes our reliance on any single product or spine disorder.

In 2007, as part of our strategy to focus on disorders affecting the aging spine, we began entering into license agreements with third parties that we believe enable us to rapidly develop and commercialize unique products for the treatment of spinal disorders that disproportionately affect the aging population. Through December 31, 2009, we licensed approximately 33 patent and patent applications from third parties. A discussion of our license agreements may be found in Item 1 Business-Intellectual Property included elsewhere in this Annual Report on Form 10-K.

To assist us in evaluating our product development strategy, we regularly monitor long-term technology trends in the spinal implant industry. Additionally, we consider the information obtained from discussions with the surgeon community and our Scientific Advisory Board in connection with the demand for our products,

Table of Contents

including potential new product launches. We also use this information to help determine our competitive position in the spinal implant industry and the capacity requirements of our manufacturing facility.

Revenue and Expense Components

The following is a description of the primary components of our revenues and expenses:

Revenues. We derive our revenues primarily from the sale of spinal surgery implants used in the treatment of spine disorders. Spinal implant products include spine screws and complementary products, vertebral body replacement devices, plates, products to treat vertebral compression fractures and bone grafting materials. Our revenues are generated by our direct sales force and independent distributors. Our products are requested directly by surgeons and shipped and billed to hospitals or surgical centers. In Japan, where orthopedic trauma surgeons also perform spine surgeries, we have sold and expect to continue to sell orthopedic trauma products in order to introduce our spine products to Japanese surgeons. In Europe, where we began sales in the second half of 2008, we use independent distributors that purchase our products and market them to their surgeon customers. As a result of offering payment terms greater than our customary U.S. business terms and operating in a new market in which we have limited prior experience, revenues for sales to our European distributors have been deferred until the sooner of when payments become due or cash is received.

Cost of revenues. Cost of revenues consists of direct product costs, royalties, depreciation of our surgical instruments, and the amortization of purchased intangibles. We manufacture substantially all of the non-allograft implants that we sell. Our product costs consist primarily of direct labor, manufacturing overhead, and raw materials and components. Allograft product costs include the cost of procurement and processing of human tissue. We incur royalties related to technology we license from others and products developed in part by surgeons with whom we collaborate in the product development process. Amortization of purchased intangibles consists of amortization of developed product technology.

Research and development. Research and development expense consists of costs associated with the design, development, testing, and enhancement of our products. Research and development costs also include salaries and related employee benefits, research-related overhead expenses, fees paid to external service providers, and costs associated with our Scientific Advisory Board and Executive Surgeon Panels.

In-process research and development. IPR&D consists of acquired research and development assets that were not technologically feasible on the date we acquired such technology, provided that such technology did not have any alternative future use at that date. At the time of acquisition, we expect all acquired IPR&D will reach technological feasibility, but there can be no assurance that commercial viability of a product will be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing, and obtaining regulatory clearances. The risks associated with achieving commercialization include, but are not limited to, delays or failures during the development process, delays or failures to obtain regulatory clearances, and delays or failures due to intellectual property rights of third parties.

Sales and marketing. Sales and marketing expense consists primarily of salaries and related employee benefits, sales commissions and support costs, professional service fees, travel, medical education, trade show and marketing costs.

General and administrative. General and administrative expense consists primarily of salaries and related employee benefits, professional service fees and legal expenses.

Litigation settlement. Litigation settlement expense consists of material settlements of lawsuits.

Total other income (expense). Total other income (expense) includes interest income, interest expense, gains and losses from foreign currency exchanges and other non-operating gains and losses.

Table of Contents

Income tax expense. Income tax expense consists primarily of state and foreign income taxes and the tax effect of changes in deferred tax liabilities associated with tax goodwill.

Accretion to redemption value of redeemable convertible preferred stock, Rolling common and Series C common stock. Accretion to redemption value of redeemable convertible preferred stock, Rolling common and Series C common stock consists of the increase in carrying value of the redeemable convertible preferred, Rolling common and Series C common stock as a result of the periodic accretion to the estimated redemption value as of the earliest redemption date. All redeemable convertible preferred stock, Rolling common and Series C common stock was converted into a combination common stock and redeemable preferred stock at the closing of our initial public offering on June 2, 2006.

Results of Operations

The first table below sets forth the Company s statements of operations data for the periods presented, and the second table below sets forth the statements of operations data expressed as a percentage of revenues for the periods presented. Statements of operations data for the period from March 18, 2005 to December 31, 2005 include the results of the Cortek business since its acquisition on September 9, 2005. Successor refers to Alphatec Holdings. Predecessor refers to Alphatec Spine prior to its acquisition by Alphatec Holdings on March 18, 2005. Combined refers to the combined results of Predecessor and Alphatec Holdings. Our historical results are not necessarily indicative of the operating results that may be expected in the future.

	Successor Year Ended December 31, 2009	Successor Year Ended December 31, 2008	Successor Year Ended December 31, 2007	Successor Year Ended December 31, 2006	Combined Year Ended December 31, 2005	Successor (1) March 18, 2005 to December 31, 2005	Predecessor (1) January 1, 2005 to March 17, 2005
				(In thousands)			
Revenues	$ 132,156	$ 101,313	$ 80,031	$ 74,005	$ 42,326	$ 36,276	$ 6,050
Cost of revenues	48,015	36,605	29,824	25,700	17,722	16,040	1,682
Gross profit	84,141	64,708	50,207	48,305	24,604	20,236	4,368
Operating expenses:							
Research and development	13,487	12,965	6,360	3,589	967	751	216
In-process research and development	6,383	2,750	9,344		3,100	3,100	
Sales and marketing (2)	51,513	42,437	33,545	36,027	19,313	16,220	3,093
General and administrative (2)	22,315	23,362	20,644	30,803	16,267	14,132	2,135
Litigation settlement		11,000					
Total operating expenses	93,698	92,514	69,893	70,419	39,647	34,203	5,444
Operating loss	(9,557)	(27,806)	(19,686)	(22,114)	(15,043)	(13,967)	(1,076)
Other income (expense):							
Interest income	67	374	793	701	129	129	
Interest expense	(3,470)	(1,875)	(868)	(2,128)	(2,058)	(1,942)	(116)
Failed acquisition costs				(1,967)			
Other income (expense), net	(86)	487	149	(38)	(119)	(124)	5
Total other income (expense)	(3,489)	(1,014)	74	(3,432)	(2,048)	(1,937)	(111)
Loss before taxes	(13,046)	(28,820)	(19,612)	(25,546)	(17,091)	(15,904)	(1,187)
Income tax (benefit) provision	243	468	590	270	(3,037)	(3,039)	2
Net loss	(13,289)	(29,288)	(20,202)	(25,816)	(14,054)	(12,865)	(1,189)
Accretion to redemption value of redeemable convertible preferred stock, Rolling common and Series C common stock				(3,450)	(7,601)	(7,601)	
	$ (13,289)	$ (29,288)	$ (20,202)	$ (29,266)	$ (21,655)	$ (20,466)	$ (1,189)

Net loss available to common stockholders	

Table of Contents

	Successor Year Ended December 31, 2009	Successor Year Ended December 31, 2008	Successor Year Ended December 31, 2007	Successor Year Ended December 31, 2006	Combined Year Ended December 31, 2005	Successor (1) March 18, 2005 to December 31, 2005	Predecessor (1) January 1, 2005 to March 17, 2005
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	36.3	36.1	37.3	34.7	41.9	44.2	27.8
Gross profit	63.7	63.9	62.7	65.3	58.1	55.8	72.2
Operating expenses:							
Research and development	10.2	12.8	7.9	4.8	2.3	2.1	3.6
In-process research and development	4.8	2.7	11.7		7.3	8.5	
Sales and marketing	39.0	41.9	41.9	48.7	45.6	44.7	51.1
General and administrative	16.9	23.1	25.8	41.6	38.5	38.9	35.3
Litigation settlement		10.8					
Total operating expenses	70.9	91.3	87.3	95.1	93.7	94.2	90.0
Operating loss	(7.2)	(27.4)	(24.6)	(29.8)	(35.6)	(38.4)	(17.8)
Other income (expense):							
Interest income		0.4	1.0	0.9	0.3	0.4	
Interest expense	(2.6)	(1.9)	(1.1)	(2.9)	(4.9)	(5.4)	(1.9)
Failed acquisition costs				(2.6)			
Other income (expense), net	(0.1)	0.5	0.2	(0.1)	(0.3)	(0.3)	0.1
Total other income (expense)	(2.7)	1.0	0.1	(4.7)	(4.9)	(5.3)	(1.8)
Loss before taxes	(9.9)	(28.4)	(24.5)	(34.5)	(40.5)	(43.7)	(19.6)
Income tax (benefit) provision	0.2	0.5	0.7	0.4	(7.2)	(8.4)	
Net loss	(10.1)	(28.9)	(25.2)	(34.9)	(33.3)	(35.3)	(19.6)
Accretion to redemption value of redeemable convertible preferred stock, Rolling common and Series C common stock				(4.7)	(18.0)	(21.0)	
	(10.1)%	(28.9)%	(25.2)%	(39.6)%	(51.3)%	(56.3)%	(19.6)%

Net loss available to common stockholders

Note:

(1) See Note to the Selected Financial Data table included elsewhere in this Annual Report on Form 10-K for a description of the Successor and Predecessor.
(2) Certain prior year balances have been reclassified in the accompanying selected consolidated financial data table to conform to the current year presentation. In our SEC filings for the year ended December 31, 2007 and prior years, our operating expenses in Japan were classified as general and administrative expenses. In this Annual Report on Form 10-K, we separated the Japanese sales and marketing expenses from the general and administrative expenses. This reclassification has no impact upon total operating expenses and net loss, and resulted in a reclassification of $3.6 million, $2.9 million and $1.2 million of general and administrative expense to sales and marketing expense for the years ended December 31, 2007, 2006 and 2005, respectively.

Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Revenues. Revenues were $132.2 million for the year ended December 31, 2009 compared to $101.3 million for the year ended December 31, 2008, representing an increase of $30.8 million, or 30.4%. U.S. revenues of $104.6 million increased $23.1 million, or 28.3%, primarily due to increased sales of our new Illico product line and our existing Zodiac, Novel, Trestle, Biologics and Solanas product lines, partially offset by a decrease in our

Table of Contents

Reveal product line. In addition, Asia revenues of $23.5 million increased $5.8 million, or 32.7%, due to both sales volumes, ($3.7 million), and the favorable affect of foreign currency exchange rates. European sales of $4.1 million increased $2.0 million, or 92.9%, due to the addition of European distributors in 2009 as compared to 2008.

Cost of revenues. Cost of revenues were $48.0 million for the year ended December 31, 2009 compared to $36.6 million for the year ended December 31, 2008, representing an increase of $11.4 million, or 31.2%. The increase was primarily due to $3.3 million in higher U.S. product costs associated with increased sales volume, increased royalty payments of $1.4 million due to increased sales volume, increased depreciation costs of $2.7 million based on a larger installed surgical instruments asset base capitalized during 2009 and higher amortization expenses of $0.2 million due primarily to the additional intangible assets acquired in 2009. In addition, cost of revenues for Asia and Europe increased $3.3 million and $1.2 million, respectively. The increases were offset by reduced expenses for inventory reserves of $0.7 million.

Gross profit. Gross profit was $84.1 million for the year ended December 31, 2009 compared to $64.7 million for the year ended December 31, 2008, representing an increase of $19.4 million, or 30.0%. Gross margin of 63.7% of revenues for the year ended December 31, 2009 decreased 0.2 percentage points from the year ended December 31, 2008. The 0.2 percentage point decrease was primarily due to decreases in margin related to increased instrument depreciation (1.5 percentage points) and increased product costs (1.2 percentage points). These decreases in margin were partially offset by increases in margin related to reduced expenses for inventory reserves (1.1 percentage points), reduced royalty expenses (0.7 percentage points), reduced amortization expense (0.5 percentage points) and reduced other period costs (0.2 percentage points).

Research and development. Research and development expenses were $13.5 million for the year ended December 31, 2009 compared to $13.0 million for the year ended December 31, 2008, representing an increase of $0.5 million, or 4.0%. The increase was primarily due to an increase of $0.5 in clinical trial expenses, increases in compensation expenses of $1.1 million due to increased headcount, an increase in stock-based compensation expense of $0.4 million, partially offset by a decrease in project materials and prototype expenses of $0.5 million, a decrease of $0.2 million in recruiting and relocation costs due to more hiring activities in 2008, and a decrease in professional services and consulting expenses of $0.7 million.

In-process research and development. In-process research and development expenses were $6.4 million for the year ended December 31, 2009 compared to $2.8 million for the year ended December 31, 2008, representing an increase of $3.6 million, or 132.1%. In the year ended December 31, 2009, we incurred expenses of $4.1 million related to development milestones that were achieved in connection with a license from a third-party of intellectual property involving an expandable pedicle screw ($1.8 million in stock and $2.3 million in cash), $0.9 million in non-cash costs related to our acquisition of technology related to a stand-alone anterior lumbar interbody fusion device, $0.5 million related to our acquisition of technology related to a stand-alone interbody device, $0.6 million related to our acquisition of technology related to a device for the treatment of spinal stenosis ($0.2 million in cash and $0.4 million in stock), and $0.3 million combined for four in-process research and development collaborations with third parties. In the year ended December 31, 2008, we incurred in-licensing costs for the technology related to the expandable interbody license of $1.0 million, the OsseoFix license of $1.0 million, the dynamic cervical plate license of $0.3 million and costs related to the neuromonitoring development agreement of $0.3 million. Pursuant to the expandable interbody license agreement, we issued 101,944 shares ($0.5 million) of our common stock and paid $0.5 million in cash to the licensor. Pursuant to the OsseoFix license, we paid $1.0 million in cash to the licensor in connection with the achievement of the design freeze milestone. Pursuant to the dynamic cervical plate license agreement, we issued 25,815 shares ($0.2 million) of our common stock and paid $0.2 million in cash to the licensor.

Sales and marketing. Sales and marketing expenses were $51.5 million for the year ended December 31, 2009 compared to $42.4 million for the year ended December 31, 2008, representing an increase of $9.1 million, or 21.4%. The increase was primarily due to higher commission expense of $6.2 million due to the higher U.S.

Table of Contents

sales volume and an increase of $3.5 million in Asia as we paid additional commissions and expenses as we increase our product mix towards Alphatec s spinal products, partially offset by a decrease in the U.S. of $0.6 million for compensation and professional services.

General and administrative. General and administrative expenses were $22.3 million for the year ended December 31, 2009 compared to $23.4 million for the year ended December 31, 2008, representing a decrease of $1.1 million, or 4.5%. The decrease was primarily related to a reduction of $1.3 million in legal expense related to the settlement of the Brodke litigation matter, a reduction of $0.8 million in property taxes, a reduction of $1.6 million in Japan expenses, offset by an increase of $2.6 million in transaction fees relating to the Scient x acquisition, and increases in legal fees and professional services.

Litigation Settlement. Litigation settlement was $11.0 million for the year ended December 31, 2008. The expense was due to a settlement agreement we entered into in May 2008 with Biedermann and DePuy and the corresponding one-time settlement payment. This one-time settlement payment was paid in May 2008. There was no corresponding litigation settlement expense in 2009.

Interest Income. Interest income was $0.1 million for the year ended December 31, 2009 compared to $0.4 million for the year ended December 31, 2008, representing a decrease of $0.3 million, or 82.1%. The decrease was primarily due to lower average cash and cash equivalent balances.

Interest Expense. Interest expense was $3.5 million for the year ended December 31, 2009 compared to $1.9 million for the year ended December 31, 2008, representing an increase of $1.6 million, or 85.1%. The increase was primarily due to larger average outstanding debt balances under our credit facilities with Silicon Valley Bank and Oxford Finance Corporation. We repaid our line of credit with General Electric Capital Corporation in the fourth quarter of 2008.

Other income (expense), net. Other income (expense), net was $(0.1) million for the year ended December 31, 2009 compared to $0.5 million for the year ended December 31, 2008, representing a decrease of $0.6 million. The decrease was due to greater foreign currency exchange losses realized in 2009 as compared to 2008.

Income tax provision. Income tax provision was $0.2 million for the year ended December 31, 2009 compared to $0.5 million for the year ended December 31, 2008, representing a decrease of $0.3 million, or 48.1%. We recorded income tax expense of $0.2 million for 2009 which consisted of U.S. income taxes of $0.1 million and foreign income taxes of $0.1 million. The U.S. income tax expense consists primarily of state income taxes and the tax effect of changes in deferred tax liabilities associated with tax deductible goodwill. The foreign income tax expense consists primarily of Japanese provincial and city income taxes.

Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Revenues. Revenues were $101.3 million for the year ended December 31, 2008 compared to $80.0 million for the year ended December 31, 2007, representing an increase of $21.3 million, or 26.6%. U.S. revenues increased $14.7 million primarily due to increased sales of our Zodiac, Novel, Trestle, and Solanas product lines, partially offset by a decrease in our Reveal product line. In addition, Asia revenues increased $4.4 million primarily due to the increase in sales of spinal products and a full year of revenue from Japan Ortho Medical which was acquired in May 2007. Commencing in the fourth quarter of 2008, we recognized revenue of $2.1 million due to initial European sales.

Cost of revenues. Cost of revenues were $36.6 million for the year ended December 31, 2008 compared to $29.8 million for the year ended December 31, 2007, representing an increase of $6.8 million, or 22.7%. The increase was primarily due to $3.3 million in higher product costs associated with increased revenue performance, an increase of $2.8 million related to the increased revenues that occurred after our acquisition of

Table of Contents

Japan Ortho Medical in May 2007, higher excess and obsolete provisions of $1.6 million due to increases in inventory, and increased royalty payments of $3.8 million due to increased revenues and the new royalty payments made in connection with the Biedermann and Depuy litigation settlement. The cost increases were partially offset by favorable production variances and improved manufacturing efficiencies of $3.7 million and a $1.2 million decrease in instrument depreciation due to the change in useful life from two to four years. Had the previous useful lives been used, such amortization would have increased by $2.9 million.

Gross profit. Gross profit was $64.7 million for the year ended December 31, 2008 compared to $50.2 million for the year ended December 31, 2007, representing an increase of $14.5 million, or 28.9%. Gross profit of 63.9% of revenues in fiscal year 2008 increased 1.2 percentage points from 2007. The 1.2 percentage point increase was primarily due to favorable production variances and improved manufacturing efficiencies of 3.2 percentage points and less instrument depreciation of 2.2 percentage points due to the change in useful life from two to four years. The increase was partially offset by higher excess and obsolete provisions of 1.5 percentage points and increased royalty payments of 2.8 percentage points.

Research and development. Research and development expenses were $13.0 million for the year ended December 31, 2008 compared to $6.4 million for the year ended December 31, 2007, representing an increase of $6.6 million, or 103.9%. The increase was primarily due to increases in compensation expenses of $1.1 million due to increased headcount, an increase in project materials and prototype expenses of $2.0 million to support new product development, an increase in professional services and consulting expenses of $0.8 million, an increase in rent expense, utilities and other facilities related expenses of $1.4 million, an increase in stock-based compensation expense of $0.4 million, and increases in other expenses to support research and development activities of $0.9 million.

In-process research and development. In-process research and development expenses were $2.8 million for the year ended December 31, 2008 compared to $9.3 million for the year ended December 31, 2007, representing a decrease of $6.5 million, or 70.6%. The decrease was primarily related to lower licensing costs in 2008 as compared to 2007. In 2008, we incurred in-licensing costs for the technology related to the expandable interbody license of $1.0 million, the OsseoFix license of $1.0 million, the dynamic cervical plate license of $0.3 million and costs related to the neuromonitoring development agreement of $0.3 million. Pursuant to the expandable interbody license agreement, we issued 101,944 shares ($0.5 million) of our common stock and paid $0.5 million in cash to the licensor. Pursuant to the OsseoFix license, we paid $1.0 million in cash to the licensor in connection with the achievement of the design freeze milestone. Pursuant to the dynamic cervical plate license agreement, we issued 25,815 shares ($0.2 million) of our common stock and paid $0.2 million in cash to the licensor. In 2007, we had significant acquisition costs of exclusive licenses for the technology related to the GLIF of $2.3 million, OsseoFix of $5.0 million and OsseoScrew of $2.0 million.

Sales and marketing. Sales and marketing expenses were $42.4 million for the year ended December 31, 2008 compared to $33.5 million for the year ended December 31, 2007, representing an increase of $8.9 million, or 26.5%. The increase was due to higher commission expense of $4.3 million due to the higher sales volume, an increase of $0.7 million in Asia as we shift our product mix towards spinal products, and increases in professional services and consulting expenses of $0.6 million, stock-based compensation expense of $0.5 million, travel costs of $0.5 million, $0.4 million in bad debt expense and increased facility costs and other marketing related expenses of $1.1 million.

General and administrative. General and administrative expenses were $23.4 million for the year ended December 31, 2008 compared to $20.6 million for the year ended December 31, 2007, representing an increase of $2.8 million, or 13.2%. The increase was primarily due an increase of $2.1 million in Asia related to increased professional fees for accounting, Sarbanes-Oxley and consulting services as well as a full year of expenses included in 2008 from the acquisition of Japan Ortho Medical in May 2007. In addition, there was an increase in stock-based compensation expense of $1.6 million as we lowered our forfeiture rate in 2008. In 2007, we had a reduction of stock compensation expense due to a settlement agreement related to certain executives that was

Table of Contents

reached in June 2007 and an adjustment to the estimated forfeiture rate which resulted in lower expense in 2007. The increases in 2008 were partially offset by a reduction in legal fees and settlement expenses of $0.9 million.

Litigation Settlement. Litigation settlement was $11.0 million for the year ended December 31, 2008. The expense was due to a settlement agreement we entered into in May 2008 with Biedermann and DePuy and the corresponding one-time settlement payment. This one-time settlement payment was paid in May 2008. There was no corresponding litigation settlement expense in 2007.

Interest Income. Interest income was $0.4 million for the year ended December 31, 2008 compared to $0.8 million for the year ended December 31, 2007, representing a decrease of $0.4 million, or 52.8%. The decrease was primarily due to lower cash and cash equivalent balances as a result of the cash used in operating activities as well as the payment of the Biedermann and Depuy litigation settlement.

Interest Expense. Interest expense was $1.9 million for the year ended December 31, 2008 compared to $0.9 million for the year ended December 31, 2007, representing an increase of $1.0 million, or 116.0%. The increase was primarily due to $0.4 million in fees associated with the repayment of our line of credit with General Electric Capital Corporation, or GECC, and equipment notes and the write-off of the remaining debt discount associated with the equipment notes of $0.2 million.

Other income (expense), net. Other income (expense), net was $0.5 million for the year ended December 31, 2008 compared to $0.1 million for the year ended December 31, 2007, representing an increase of $0.4 million or 226.8%. The increase was due to greater foreign currency exchange gains realized in 2008 as compared to 2007.

Income tax provision. Income tax provision was $0.5 million for the year ended December 31, 2008 compared to $0.6 million for the year ended December 31, 2007, representing a decrease of $0.1 million, or 20.7%. We recorded income tax expense of $0.5 million for 2008 which consisted of U.S. income taxes of $0.3 million and foreign income taxes of $0.2 million. The U.S. income tax expense consists primarily of state income taxes and the tax effect of changes in deferred tax liabilities associated with tax deductible goodwill. The foreign income tax expense consists primarily of Japanese provincial and city income taxes.

Non-GAAP Financial Measures

We utilize certain financial measures that are not calculated based on Generally Accepted Accounting Principles, or GAAP. Certain of these financial measures are considered non-GAAP financial measures within the meaning of Item 10 of Regulation S-K promulgated by the SEC. We believe that non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with the GAAP results, provide a more complete understanding of our results of operations and the factors and trends affecting our business. These non-GAAP financial measures are also used by our management to evaluate financial results and to plan and forecast future periods. However, non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Non-GAAP financial measures used by us may differ from the non-GAAP measures used by other companies, including our competitors.

Adjusted EBITDA represents net income (loss) excluding the effects of interest, taxes, depreciation, amortization, stock-based compensation and other non-recurring income or expense items, such as in-process research and development expense and transaction related expenses. We believe that the most directly comparable GAAP financial measure to adjusted EBITDA is net income (loss). Adjusted EBITDA has limitations. Therefore, adjusted EBITDA should not be considered either in isolation of as a substitute for analysis of our results as reported under GAAP. Furthermore, adjusted EBITDA should not be considered as an alternative to operating income (loss) or net income (loss) as a measure of operating performance or to net cash provided by operating, investing or financing activities, or as a measure of our ability to meet cash needs.

Table of Contents

The following is a reconciliation of adjusted EBITDA to the most comparable GAAP measure, net loss, for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	Year Ended December 31,		
	2009	2008	2007
Net loss	$ (13,289)	$ (29,288)	$ (20,202)
Stock-based compensation	3,571	2,935	678
Depreciation	8,627	5,107	6,609
Amortization of intangible assets	3,329	3,624	3,874
In-process research and development	6,383	2,750	9,344
Litigation settlement		11,000	
Interest expense	3,470	1,875	868
Income tax expense	243	468	590
Other (income) expense, net	19	(861)	(942)
Transaction related expenses	2,598		
Adjusted EBITDA	$ 14,951	$ (2,390)	$ 819

Non-GAAP earnings (loss) represents net income (loss) excluding the effects of in-process research and development expenses, transaction related expenses and litigation settlement expenses. Management does not consider these expenses when it makes certain evaluations of the operations of the Company. We believe that the most directly comparable GAAP financial measure to non-GAAP earnings (loss) is net income (loss).

The following is a reconciliation of non-GAAP net loss to the most comparable GAAP measure, net loss, for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	Year Ended December 31,		
	2009	2008	2007
Net loss	$ (13,289)	$ (29,288)	$ (20,202)
In-process research and development	6,383	2,750	9,344
Transaction related expenses	2,598		
Litigation settlement		11,000	
Non-GAAP net loss	$ (4,308)	$ (15,538)	$ (10,858)

The following is a reconciliation of non-GAAP net loss per share to the most comparable GAAP measure, net loss per common share, for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	Year Ended December 31,		
	2009	2008	2007
Net loss per common share-basic and diluted	$ (0.27)	$ (0.63)	$ (0.54)
In-process research and development	0.13	0.06	0.25
Transaction related expenses	0.05		
Litigation settlement		0.23	
Non-GAAP net loss per common share-basic and diluted	$ (0.09)	$ (0.34)	$ (0.29)

Liquidity and Capital Resources

At December 31, 2009, our principal sources of liquidity consisted of cash and cash equivalents of $10.1 million, accounts receivable, net of $24.8 million, and available credit of $0.3 million. We believe such amounts and cash raised in a February 2010 equity offering (See Subsequent events that may impact liquidity below) will be sufficient to fund our cash requirements through at least December 31, 2010 without consideration of the acquisition of Scient x as discussed below.

Table of Contents

In December 2008, we entered into a Loan and Security Agreement, the Credit Facility, with Silicon Valley Bank and Oxford Finance Corporation, or, the Lenders (See Credit Facility and other Debt below). In conjunction with the Credit Facility, we are required to maintain compliance with quarterly financial covenants, which include a minimum level of revenues and a minimum level of adjusted EBITDA. The minimum covenants are consistent each quarter during fiscal 2010. In order to meet the financial covenants for 2010, we will need to achieve growth over our historical quarterly revenue and earnings levels. Our 2010 board of directors approved operating plan shows that we would meet the quarterly financial covenants and we believe that we will be able to achieve this operating plan. However, if we are not able to achieve our planned revenue growth or incur costs in excess of our forecast, we could be in default of the Credit Facility. In addition to the financial covenants described above, there are other clauses including subjective clauses that would allow the Lenders to declare the loan immediately due and payable. Upon the occurrence of an event of default under the Credit Facility, the Lenders could elect to declare all amounts outstanding under the Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. If the Lenders were to accelerate the repayment of borrowings under the Credit Facility for any reason, we may not have sufficient cash on hand to repay the amounts borrowed under the Credit Facility.

On December 17, 2009, we entered into an acquisition agreement to acquire all the shares of Scient x, a French medical device company that is controlled by HealthpointCapital who owns approximately 38.1% of our outstanding common stock at December 31, 2009. Scient x is also a spine implant manufacturing and distribution business with operations concentrated in Europe. Subsequent to the closing of the acquisition, we will be responsible for managing the operations of the combined entities. Scient x currently has a credit facility requiring the achievement of a minimum revenue amount as specified in the credit facility. While the operating plan of Scient x shows that Scient x will achieve those covenants, if Scient x is not able to achieve its planned revenue growth, it could be in default of its credit facility. In addition to the financial covenant, there are other clauses including subjective clauses that would allow the Lenders to declare the loan immediately due and payable. Upon the occurrence of an event of default under the credit facility, the lenders could elect to declare all amounts outstanding under the credit facility to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings under the credit facility for any reason, we may not have sufficient cash on hand to repay the amounts borrowed under the credit facility.

Based on our plan for combining the operating activities of these two companies, which includes a combined operating plan and cash forecast, management believes that on a combined basis, we will have sufficient working capital to fund our cash requirements through December 31, 2010. Assuming the acquisition occurs, if either we or Scient x is not able to achieve the minimum targeted revenue growth and related improvements in profitability to meet the quarterly covenants or has other unanticipated expenditures, we would be required to attempt to renegotiate the Credit Facility and may be required to seek additional capital and/or to substantially reduce discretionary spending, which could have a material adverse effect on our ability to achieve our intended business objectives. We may seek additional financing, which may include additional debt and/or equity financing or funding through other third party agreements. We intend to enter into a new credit facility upon the closing of the acquisition which would include financial covenants reflective of the combined operations of us and Scient x. There can be no assurance that such new credit facility or any additional financing will be available on acceptable terms or available at all. Any equity financing may result in dilution to existing stockholders and any debt financing may include restrictive covenants.

We will need to invest in working capital and capitalized surgical instruments in order to support our revenue projections through 2010. Should we not be able to achieve our revenue forecast and cash consumption starts to exceed forecasted consumption, management will need to adjust our investment in surgical instruments and manage our inventory to the decreased sales volumes. If we do not make these adjustments in a timely manner, there could be an adverse impact on our financial resources.

Historically, our principal sources of cash have included customer payments from the sale of our products, proceeds from the issuance of common and preferred stock and proceeds from the issuance of debt. Our principal

Table of Contents

uses of cash have included cash used in operations, acquisitions of businesses and intellectual property rights, payments relating to purchases of property and equipment and repayments of borrowings. We expect that our principal uses of cash in the future will be for operations, working capital, capital expenditures, and potential acquisitions. We expect that, as our revenues grow, our sales and marketing and research and development expenses will continue to grow and, as a result, we will need to generate significant net revenues to achieve profitability.

In June 2009, we entered into a subscription agreement with one of our existing shareholders, HealthpointCapital Partners II, L.P. We sold 3,937,007 shares of our common stock at a price of $2.54 per share in a private placement for an aggregate purchase price of approximately $10.0 million. We paid approximately $0.1 million for transaction fees and received aggregate net proceeds of approximately $9.9 million. We intend to use the net proceeds of the placement for general working capital purposes. If we believe it is in our interest to raise additional funds, we may seek to sell additional equity or debt securities or borrow additional money. The sale of additional equity or convertible debt securities could result in dilution to our stockholders. If additional funds are raised through the issuance of equity or debt securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Any additional financing may not be available in amounts or on terms acceptable to us, or at all.

A substantial portion of our available cash funds is in business accounts with reputable financial institutions. However, our deposits, at times, may exceed federally insured limits. The capital markets have recently been highly volatile and there has been a lack of liquidity for certain financial instruments, especially those with exposure to mortgage-backed securities and auction rate securities. This lack of liquidity has made it difficult for the fair value of these types of instruments to be determined. We did not hold any marketable securities as of December 31, 2009.

As a result of recent volatility in the capital markets, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Continued turbulence in the U.S. and international markets and economies may adversely affect our ability to obtain additional financing on terms acceptable to us, or at all. If these market conditions continue, they may limit our ability to timely replace maturing liabilities and to access the capital markets to meet liquidity needs.

Subsequent events that may impact liquidity

As discussed previously, on December 17, 2009, we entered into a definitive agreement to acquire Scient x, a global medical device company based in Guyancourt, France that designs, develops and manufacturers surgical implants to treat disorders of the spine. The transaction is structured as an all stock transaction such that 100% of outstanding Scient x stock will be exchanged pursuant to a fixed ratio for 24,000,000 shares of our common stock. The transaction is currently expected to close by the end of the first quarter of 2010 and is subject to the approval of our shareholders.

On February 9, 2010, we entered into subscription agreements with a group of purchasers for the sale of an aggregate of 1,592,011 shares of our common stock at a purchase price of $4.1457 per share, for gross proceeds of approximately $6.6 million. The net proceeds to us from the offering, after deducting expenses, were approximately $6.5 million. The offering closed on February 12, 2010.

On February 12, 2010, we filed a registration statement on Form S-3 with the SEC to register for resale by HealthpointCapital up to an aggregate of 20,031,646 shares of our common stock. In addition, under this shelf registration we may offer and sell shares of our common stock and preferred stock, various series of debt securities, and warrants, either individually or in units, with a total value of up to $100,000,000 at prices and on terms to be determined by market conditions at the time of offering. As of the date of the filing of this Annual Report on Form 10-K, the registration statement has not been declared effective by the SEC.

Table of Contents

Operating activities

We used net cash of $5.5 million in operating activities for the year ended December 31, 2009. During this period, net cash used in operating activities primarily consisted of a net loss of $13.3 million and a decrease in working capital and other assets of $13.5 million, which were partially offset by $21.3 million of non-cash costs including amortization, depreciation, deferred income taxes, stock-based compensation, and IPR&D that was purchased using our common stock and interest expense related to amortization of debt discount and issue costs. The decrease in working capital and other assets of $13.5 consisted of increases in accounts receivable of $6.0 million and inventory of $7.3 million in support of the higher sales volume and decreases in accounts payable, accrued expenses and other liabilities of $2.6 million, partially offset by decreases in prepaid expenses and other assets of $2.1 million and increases in deferred revenues of $0.3 million.

Investing activities

We used net cash of $12.7 million in investing activities for the year ended December 31, 2009 primarily for the purchase of $11.8 million in surgical instruments, computer equipment, leasehold improvements and manufacturing equipment and $1.4 million for the intellectual property intangible asset associated with the settlement of the Brodke litigation and a license agreement, partially offset by $0.1 million in proceeds from the sale of equipment and $0.4 million in proceeds from the sale of our prior investment in Noas Medical Company, a Japanese spinal and orthopedic implant distributor.

Financing activities

We generated net cash of $10.3 million from financing activities for the year ended December 31, 2009. In June 2009 we entered into a subscription agreement to sell shares of our common stock. Net proceeds from such sale totaled $9.9 million. Net proceeds from borrowings under our line of credit totaled $5.8 million. We made payments on our line of credit and made other principal payments on notes payable and capital lease obligations totaling $5.4 million.

Credit Facility and other debt

In December 2008, we entered into a Loan and Security Agreement, or the Credit Facility, with Silicon Valley Bank and Oxford Finance Corporation, or the Lenders, consisting of a $15.0 million term loan and a $15.0 million working capital line of credit. The term loan carries a fixed interest rate of 11.25% with interest payments due monthly but no principal repayment through September 2009. Thereafter, we are required to repay the principal plus interest in 30 equal monthly installments, ending in April 2012. An additional finance charge of $0.8 million is due in April 2012. We will pay a prepayment penalty if the loan is repaid prior to maturity. We do not currently anticipate repaying the debt early.

The working capital line of credit carries a variable interest rate equal to the prime rate plus either 2.5% or 2.0%, depending on our financial performance. Interest only payments are due monthly and the principal is due at maturity in April 2012.

In connection with the term loan, we issued warrants to the Lenders to purchase an aggregate of 476,190 shares of our common stock. The warrants are immediately exercisable, can be exercised through a cashless exercise, have an exercise price of $1.89 per share and have a ten-year term. We recorded the value of the warrants of $0.9 million as a debt discount. In September 2009, one of the Lenders to the Credit Facility exercised all of its warrants pursuant to the cashless exercise provision of its warrant agreement resulting in the issuance of 113,388 shares of our common stock to the Lender.

We are also required to maintain compliance with financial covenants in the Credit Facility, which include a minimum level of revenues and a minimum level of adjusted EBITDA (a non-GAAP term defined as net income (loss) excluding the effects of interest, taxes, depreciation, amortization, stock-based compensation and other

Table of Contents

non-recurring income and expense items). The Credit Facility also contains customary affirmative and negative covenants for loan agreements of this type, including, but not limited to, limitations on the incurrence of indebtedness, asset dispositions, acquisitions, investments, dividends and other restricted payments, liens and transactions with affiliates. As of December 31, 2009, we were in compliance with the financial covenants in the Credit Facility. To secure the repayment of any amounts borrowed under the loan agreement, we granted the Lenders a first priority security interest in all of our assets, other than our intellectual property and our rights under license agreements granting us the right to intellectual property. We also agreed not to pledge or otherwise encumber our intellectual property assets without the consent of the Lenders.

The Lenders have the right to declare the loan immediately due and payable in an event of default under the Credit Facility, which includes, among other things, the failure to make payments when due, breaches of representations, warranties or covenants, the occurrence of certain insolvency events, or the occurrence of an event which could have a material adverse effect on us.

During the year ended December 31, 2009, we repaid $2.5 million and drew an additional $5.8 million on the working capital line of credit. The balance of the line of credit as of December 31, 2009 was $14.7 million. The balance on the term loan was $13.7 million, net of the debt discount. Amortization of the debt discount and debt issuance costs and accretion of the additional finance charge, which are recorded as a non-cash interest expense, totaled $0.9 million for the year ended December 31, 2009. Interest expense for the Credit Facility, excluding debt discount and issuance cost amortization and accretion of the additional finance charge, totaled $2.6 million for the year ended December 31, 2009.

In September 2008, Alphatec Pacific paid $0.8 million on its Resona Bank line of credit and replaced the line of credit with $0.6 million term debt with Resona Bank, which is payable over 30 months with a 3.75% interest rate. Alphatec Pacific has additional notes payable to Japanese banks and a bond payable, bearing interest at rates ranging from 1.5% to 6.5% and maturity dates through January 2014 which are collateralized by substantially all of the assets of Alphatec Pacific and Japan Ortho Medical. As of December 31, 2009, the balance of the notes and the bond totaled $1.1 million.

We have various capital lease arrangements. The leases bear interest at rates ranging from 4.5% to 7.4%, are generally due in monthly principal and interest installments, are collateralized by the related equipment, and have various maturity dates through January 2014. As of December 31, 2009, the balance of these capital leases totaled $0.1 million.

In April 2008, we entered into a note payable with Microsoft, Inc. for the purchase of software licenses, bearing interest at a rate of 2.7% and a maturity date of February 2011. The balance of this note as of December 31, 2009 was $0.2 million.

During 2009, we executed financing agreements totaling $1.0 million for the payment of premiums on various insurance policies as the terms were expiring on each of the prior policies. These financing arrangements bear interest ranging from 0.0% to 5.2% and are payable from February 2010 through June 2010. The balance of all financing agreements for insurance premiums as of December 31, 2009 totaled $0.6 million.

Table of Contents

Contractual obligations and commercial commitments

Total contractual obligations and commercial commitments as of December 31, 2009 are summarized in the following table (in thousands):

		Payment Due by Year					
	Total	2010	2011	2012	2013	2014	Thereafter
Line of Credit with SVB/Oxford	$ 14,735	$	$	$ 14,735	$	$	$
Term loan with SVB/Oxford	14,125	5,605	6,269	2,251			
Term loan final payment	750			750			
Notes payable to Microsoft	191	176	15				
Notes payable for insurance premiums	568	568					
Notes and bond payable to Japanese banks	1,110	646	292	118	50	4	
Capital lease obligations	94	31	21	21	20	1	
Operating lease obligations	15,251	2,831	2,491	2,172	2,146	2,138	3,473
Minimum obligation for transaction related fees	965	965					
Guaranteed minimum royalty obligations	1,700	850	600	250			
Minimum purchase obligation	9,745	2,437	3,558	3,750			
New product development milestones (1)	4,750	3,750	1,000				
Total	$ 63,984	$ 17,859	$ 14,246	$ 24,047	$ 2,216	$ 2,143	$ 3,473

(1) This commitment represents payments in cash, and is subject to attaining certain development milestones such as FDA approval, product design and functionality testing requirements, which we believe are reasonably likely to be achieved in 2010 and 2011.

Real Property Leases

During the first quarter of fiscal year 2008, we entered into a lease agreement and sublease agreement in order to consolidate the use and occupation of our five existing premises into two adjacent facilities.

In February 2008, we entered into a sublease agreement, or the Sublease, for 76,693 square feet of office, engineering, and research and development space, or Building 1. The Sublease term commenced May 2008 and ends on January 31, 2016. We are obligated under the Sublease to pay base rent and certain operating costs and taxes for Building 1. Monthly base rent payable by us was approximately $80,500 during the first year of the Sublease, increasing annually at a fixed annual rate of 2.5% to approximately $93,500 per month in the final year of the Sublease. Our rent was abated for months one through seven of the Sublease. Under the Sublease, we were required to provide the sublessor with a security deposit in the amount of approximately $93,500. Building 1 consolidated all corporate, marketing, finance, administrative, and research and development activities into one building.

In March 2008, we entered into a lease agreement, or the Lease, for 73,480 square feet of office, engineering, research and development and warehouse and distribution space, or Building 2. The Lease term commenced on December 1, 2008 and ends on January 31, 2017. We are obligated under the Lease to pay base rent and certain operating costs and taxes for Building 2. The monthly base rent payable for Building 2 was approximately $73,500 during the first year of the Lease, increasing annually at a fixed annual rate of 3.0% to approximately $93,000 per month in the final year of the Lease. Our rent was abated for the months two through eight of the term of the Lease in the amount of $38,480. Under the Lease, we were required to provide the lessor with a security deposit in the amount of $293,200, consisting of cash and/or one or more letters of credit. Following our achievement of certain financial milestones, the lessor is obligated to return a portion of the security deposit to us. The lessor provided a tenant improvement allowance of $1.1 million to assist with the configuration of the facility to meet our business needs. We consolidated all manufacturing, distribution and warehousing activities into Building 2 in April 2009.

Table of Contents

Off-Balance Sheet Arrangements

As of December 31, 2009, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowances for accounts receivable, inventories, goodwill and intangible assets, stock-based compensation and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions conditions.

We believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectibility is reasonably assured. In addition, we account for revenue under provisions which set forth guidelines for the timing of revenue recognition based upon factors such as passage of title, installation, payment and customer acceptance. Determination of criteria (iii) and (iv) are based on management s judgment regarding the fixed nature of the fee charged for products delivered and the collectibility of those fees. Specifically, our revenue from sales of medical devices is recognized upon receipt of written acknowledgement that the product has been used in a surgical procedure or upon shipment to third-party customers who immediately accept title and the related risks and rewards that go with it. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenues recognized for any reporting period could be adversely impacted.

During 2009, we shipped product to European distributors in which the terms of such sales included extended payment terms. As a result of offering payment terms greater than our customary U.S. business terms, and operating in a new market in which we have limited prior experience, revenues for purchases by distributors in Europe have been deferred until the earlier of either the date upon which payments are due or until cash is received for such purchases.

During 2009, we shipped product to a U.S. distributor that did not have an extensive credit history. As a result of a lack of extensive credit history, revenues for purchases by this distributor have been deferred until cash is received.

Accounts Receivable

Accounts receivable are presented net of allowance for doubtful accounts. We make judgments as to our ability to collect outstanding receivables and provide allowances for a portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices and the overall quality and age of those invoices not specifically reviewed. In determining the provision for invoices not specifically reviewed, we analyze historical collection experience and current economic trends. If the historical data used to calculate the allowance provided for doubtful accounts does not reflect our future ability to collect outstanding receivables or if the financial condition of customers were to deteriorate, resulting in impairment of their ability to make payments, an increase in the provision for doubtful accounts may be required.

Table of Contents

Inventories

Inventories are stated at the lower of cost or market, with cost primarily determined under the first-in, first-out method. We review the components of inventory on a periodic basis for excess, obsolete and impaired inventory, and record a reserve for the identified items. We calculate an inventory reserve for estimated excess and obsolete inventory based upon historical turnover and assumptions about future demand for our products and market conditions. Our biologic implant inventories have a five-year shelf life and are subject to demand fluctuations based on the availability and demand for alternative implant products. Our estimates and assumptions for excess and obsolete inventory are subject to uncertainty as we are a high growth company, and we are continually reviewing our existing products and introducing new products. Increases in the reserve for excess and obsolete inventory result in a corresponding increase to cost of revenues and establish a new cost basis for the part.

Valuation of Goodwill and Intangible Assets

We assess the impairment of our goodwill and intangible assets annually in December or each quarter if business conditions change and an earlier impairment indicator arises. This assessment requires us to make assumptions and judgments regarding the carrying value of these assets. These assets are considered to be impaired if we determine that their carrying value may not be recoverable based upon our assessment of the following events or changes in circumstances:

- a determination that the carrying value of such assets can not be recovered through undiscounted cash flows;
- loss of legal ownership or title to the assets;
- significant changes in our strategic business objectives and utilization of the assets; or
- the impact of significant negative industry or economic trends.

If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and the related amortization expense on our estimate of the useful life of the assets. Due to the numerous variables associated with our judgments and assumptions relating to the carrying value of our goodwill and intangible assets and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainty, and as additional information becomes known, we may change our estimate, in which case the likelihood of a material change in our reported results would increase.

Stock-Based Compensation

We account for stock-based compensation under provisions which require that share-based payment transactions with employees be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. The amount of expense recognized during the period is affected by subjective assumptions, including: estimates of our future volatility, the expected term for our stock options, the number of options expected to ultimately vest, and the timing of vesting for our share-based awards.

We use a Black-Scholes-Merton option-pricing model to estimate the fair value of our stock option awards. The calculation of the fair value of the awards using the Black-Scholes-Merton option-pricing model is affected by our stock price on the date of grant as well as assumptions regarding the following:

- Estimated volatility is a measure of the amount by which our stock price is expected to fluctuate each year during the expected life of the award. Our estimated volatility through December 31, 2009 was based on a weighted-average volatility of our actual historical volatility since our initial public offering in June 2006 and the historical stock volatilities of similar peer entities whose stock prices were publicly available. Our calculation of estimated volatility is based in part on historical stock prices of these peer entities over a

75

Table of Contents

period equal to the expected life of the awards. We continue to use the historical volatility of peer entities due to the lack of sufficient historical data of our stock price since our initial public offering. Our estimated volatility may increase or decrease depending on the changes in our peer entities historical stock prices, changes in the composition of the peer entity group and changes to the expected term of our stock option awards. An increase in the estimated volatility would result in an increase to our stock-based compensation expense.

The expected term represents the period of time that awards granted are expected to be outstanding. Our estimated expected term through December 31, 2009 was calculated using a weighted-average term based on historical exercise patterns and the term from option date to full exercise for the options granted within the specified date range. An increase in the expected term would result in an increase to our stock-based compensation expense.

The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. An increase in the risk-free interest rate would result in an increase to our stock-based compensation expense.

The assumed dividend yield is based on our expectation of not paying dividends in the foreseeable future.

We use historical data to estimate the number of future stock option forfeitures. Share-based compensation recorded in our consolidated statement of operations is based on awards expected to ultimately vest and has been reduced for estimated forfeitures. Our estimated forfeiture rates may differ from our actual forfeitures which would affect the amount of expense recognized during the period.

We account for stock option grants to non-employees under provisions which require that the fair value of these instruments be recognized as an expense over the period in which the related services are rendered.

Share-based compensation expense of awards with performance conditions is recognized over the period from the date the performance condition is determined to be probable of occurring through the time the applicable condition is met. Determining the likelihood and timing of achieving performance conditions is a subjective judgment made by management which may affect the amount and timing of expense related to these share-based awards. Share-based compensation is adjusted to reflect the value of options which ultimately vest as such amounts become known in future periods. As a result of these subjective and forward-looking estimates, the actual value of our share-based awards could differ significantly from those amounts recorded in our financial statements.

Stock-based compensation has been classified as follows in the accompanying consolidated statements of operations (in thousands, except per share data):

	Year Ended December 31,		
	2009	2008	2007
Cost of revenues	$ 245	$ 236	$ 112
Research and development	965	580	184
Sales and marketing	807	760	267
General and administrative	1,554	1,359	(249)
Total	$ 3,571	$ 2,935	$ 314
Effect on basic and diluted net loss per share	$ (0.07)	$ (0.06)	$ (0.01)

Income Taxes

We account for income taxes in accordance with provisions which set forth an asset and liability approach that requires the recognition of deferred tax assets and deferred tax liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

76

Table of Contents

Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not expected to be realized. In making such a determination, a review of all available positive and negative evidence must be considered, including scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance.

We recognize interest and penalties related to uncertain tax positions as a component of the income tax provision.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board, or FASB, issued new accounting guidance that requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management s estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We do not expect adoption to have a material impact on our financial position or results of operations.

Effective July 1, 2009, we adopted newly issued accounting guidance which establishes the FASB Accounting Standards Codification, or the Codification, as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The Codification does not change GAAP and did not impact our financial position or results of operations.

In June 2009, we adopted newly issued accounting guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption did not have a material impact on our financial position or results of operations.

Effective January 1, 2009, we adopted newly issued accounting guidance for the useful life of intangible assets. The guidance amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset and also requires expanded disclosure related to the determination of intangible asset useful lives. The adoption did not have a material impact on our financial position or results of operations.

Effective January 1, 2009 we adopted newly issued accounting guidance for business combinations. The guidance retains the purchase method of accounting for acquisitions, but requires an acquiring company to measure all assets acquired and liabilities assumed, including contingent considerations and contractual contingencies, at fair value as of the acquisition date. In addition, an acquiring company is required to capitalize in-process research and development and either amortize it over the life of the product, or expense it upon abandonment or impairment. The guidance also requires expensing of acquisition-related costs as incurred. The new guidance applies to business combinations completed on or after January 1, 2009.

Effective January 1, 2009, we adopted newly issued accounting guidance that addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The new guidance applies to business combinations completed on or after January 1, 2009.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our borrowings under our line of credit expose us to market risk related to changes in interest rates. As of December 31, 2009, our outstanding floating rate indebtedness totaled $14.7 million. The primary base interest rate is the U.S. federal prime rate. Assuming the outstanding balance on our floating rate indebtedness remains constant over a year, a 100 basis point increase in the interest rate would decrease pre-tax income and cash flow by approximately $0.1 million. Other outstanding debt consists of fixed rate instruments, including the term loan and capital leases.

Foreign Currency Risk

While a majority of our business is denominated in U.S. dollars, we maintain operations in foreign countries, primarily Japan and Europe, that require payments in the local currency. Fluctuations in the rate of exchange between the U.S. dollar and certain other currencies may affect our results of operations and period-to-period comparisons of our operating results. For example, if the value of the U.S. dollar were to increase relative to the Japanese Yen, then our reported revenues would decrease when we convert the Japanese Yen into U.S. dollars. We do not currently engage in hedging or similar transactions to reduce these risks. However, the currency exposure in our foreign currency revenues is mitigated because expenses of our foreign subsidiaries are payable in foreign currencies. We do not believe we have a material exposure to foreign currency rate fluctuations at this time.

Commodity Price Risk

We purchase raw materials that are processed from commodities, such as titanium and stainless steel. These purchases expose us to fluctuations in commodity prices. Given the historical volatility of certain commodity prices, this exposure can impact our product costs. However, because our raw material prices comprise a small portion of our cost of revenues, we have not experienced any material impact on our results of operations from changes in commodity prices. A 10% change in commodity prices would not have a material impact on our results of operations for the year ended December 31, 2009.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements and supplementary data required by this item are set forth at the pages indicated in Item 15.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Table of Contents

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in SEC Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Annual Report on Form 10-K. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were: (1) designed to ensure that material information relating to us is made known to our Chief Executive Officer and Chief Financial Officer by others within our company, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms.

Changes in Internal Control over Financial Reporting.

There has been no change in our internal controls over financial reporting in the 2009 fiscal year that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Report of Management on Internal Control Over Financial Reporting

Our management, including the our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

Our management, including the our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management determined that, as of December 31, 2009, we maintained effective internal control over financial reporting.

Ernst and Young LLP, an independent registered public accounting firm, who audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as stated in its report appearing elsewhere in this Annual Report on Form 10-K.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Alphatec Holdings, Inc.

We have audited Alphatec Holdings, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Alphatec Holdings, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Alphatec Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alphatec Holdings, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009 of Alphatec Holdings, Inc. and our report dated March 2, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 2, 2010

Table of Contents

Item 9B. Other Information

Not applicable.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions Management, Corporate Governance Matters, Compliance with Section 16(a) of the Securities Exchange Act of 1934, and Code of Conduct and Ethics in our Proxy Statement for the 2010 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by Item 11 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions Executive Officer and Director Compensation, Compensation Discussion and Analysis, Compensation Committee Interlocks and Insider Participation, Compensation Committee Report, and Compensation Practices and Policies Relating to Risk Management in our Proxy Statement for the 2010 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information in our Proxy Statement for the 2010 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions Certain Relationships and Related Transactions, Management and Corporate Governance Matters in our Proxy Statement for the 2010 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the caption Independent Public Accountants in our Proxy Statement for the 2010 Annual Meeting of Stockholders.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

Item 15 (a) *The following documents are filed as part of this Annual Report on Form 10-K.*

(1) Financial Statements:

(2) Financial Statement Schedules:

All other financial statement schedules have been omitted because they are not applicable, not required or the information required is included in the consolidated financial statements or the notes thereto.

Item 15(a)(3) Exhibits List

The following is a list of exhibits filed as part of this Annual Report on Form 10-K.

3.1(1)	Acquisition Agreement, dated December 17, 2009, by and among the Company and certain shareholders of Scient x Groupe S.A.S. and Scient x S.A.
3.1(2)	Amended and Restated Certificate of Incorporation.
3.2(3)	Restated By-laws.
4.1(4)	Form of Common Stock Certificate.
4.2(5)	Stockholders Agreement by and among the Registrant, HealthpointCapital Partners, L.P. and the stockholders of the Registrant, dated as of March 17, 2005.
4.3(6)	Warrant with Silicon Valley Bank as the Warrantholder, dated as of December 5, 2008.
4.4(7)	Warrant with Oxford Finance Corporation as the Warrantholder, dated as of December 5, 2008.
10.1(8)*	Amended and Restated 2005 Employee, Director and Consultant Stock Plan.
10.2(9)*	Form of Non-Qualified Stock Option Agreement issued under the Amended and Restated 2005 Stock Plan.
10.3(10)*	Form of Incentive Stock Option Agreement issued under the Amended and Restated 2005 Stock Plan.
10.4(11)*	Form of Restricted Stock Agreement issued under the Amended and Restated 2005 Stock Plan.
10.5(12)	Lease Agreement by and between Alphatec Holdings, Inc. and H.G. Fenton Property Company, dated as of March 4, 2008.
10.6(13)	Sublease Agreement by and between Alphatec Holdings, Inc. and K2, Inc., dated as of February 28, 2008.

10.7(14)	Supply Agreement by and between Alphatec Spine, Inc. and Invibio, Inc., dated as of October 18, 2004 and amended by Letter of Amendment in respect of the Supply Agreement, dated as of December 13, 2004.

Table of Contents

10.8(15)	License Agreement by and between Alphatec Spine, Inc. and Cross Medical Products, Inc., dated as of April 24, 2003.
10.9(16)	Translation of Agreement for Transfer of Business Right by K.K. Mac and K.K. Alpha Tech Pacific, dated as of August 1, 2005.
10.10(17)*	Employment Agreement by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Dirk Kuyper, dated June 1, 2007.
10.11(18)*	Employment Agreement by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Kermit Stott, dated August 2007.
10.12(19)*	Employment Agreement by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Peter C. Wulff, dated as of June 13, 2008.
10.13(20)*	Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Steve Lubischer, dated November 10, 2006.
10.14(21)*	Employment Agreement by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Ebun Garner, dated July 17, 2006.
10.15(22)*	Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and JP Timm, dated January 28, 2008.
10.16(23)*	Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Mitsuo Asai, dated January 14, 2008.
10.17(24)*	Consulting Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Stephen J. Hochschuler, M.D., dated October 13, 2006.
10.18(25)	Sales Agency Agreement by and between Alphatec Spine, Inc. and S. S. Fusion Medical, Inc., dated as of January 2, 2008.
10.19(26)	License Agreement by and between Alphatec Spine, Inc. and JGMG Bengochea, LLC, dated as of September 11, 2007.
10.20(27)	License Agreement by and between Alphatec Spine, Inc. and Stout Medical Group, LP, dated as of September 11, 2007.
10.21(28)	License Agreement by and between Alphatec Spine, Inc. and Progressive Spinal Technologies, LP, dated as of December 18, 2007, as amended on January 14, 2008 and on January 12, 2009.
10.22(29)	First Amendment to the License Agreement by and between Alphatec Spine, Inc. and Progressive Spinal Technologies, LP, dated as of January 12, 2009.
10.23(30)	Second Amendment to Exclusive License Agreement by and between Alphatec Spine, Inc. and Progressive Spinal Technologies, LP, dated as of January 12, 2009.
10.24(31)	License Agreement by and between Alphatec Spine, Inc. and Stout Medical Group, LP, dated as of March 10, 2008.
10.25(32)	Developmental Consulting Agreement by and between Alphatec Spine, Inc. and Stout Medical Group LP, dated as of March 3, 2008, as amended on May 15, 2008 and December 17, 2008.
10.26(33)	Loan and Security Agreement by and among Alphatec Holdings, Inc., Alphatec Spine, Inc., Silicon Valley Bank and Oxford Financial Corporation, dated as of December 5, 2008.
10.27(34)	Settlement and Release Agreement by and among Alphatec Spine, Inc., DePuy Spine, Inc. and Biedermann Motech GmbH, dated as of May 5, 2008.
10.28(35)	Patent License Agreement by and between Alphatec Spine, Inc., DePuy Spine, Inc. and Biedermann Motech GmbH, dated as of May 1, 2008.

Table of Contents

10.29(36)	Corporate Governance Agreement, dated December 17, 2009, between the Company and certain shareholders of Scient x Groupe S.A.S. and Scient x S.A.
10.30(37)	Cross License Agreement effective June 30, 2009, by and among the Company, Alphatec Spine, Inc. and International Spinal Innovations, LLC.
10.31(38)	Subscription Agreement effective June 4, 2009, between the Company and HealthpointCapital Partners II, L.P.
10.32(39)	Third Amendment to the License Agreement effective June 30, 2009, by and among the Company, Alphatec Spine, Inc. and Progressive Spinal Technologies LLC.
10.33*	Summary Description of Alphatec Holdings, Inc 2010 Compensatory Arrangements for Named Executive Officers.
10.34(40)	Amended and Restated License Agreement effective March 31, 2009, by and among the Company, Alphatec Spine, Inc. and Stout Medical Group LP.
10.35(41)	Amended and Restated Developmental Consulting Agreement, effective March 31, 2009, by and among the Company, Alphatec Spine, Inc. and Stout Medical Group LP.
10.36(42)	First Amendment to the Exclusive License Agreement, effective March 31, 2009 between Alphatec Spine, Inc. and Stout Medical Group LP.
10.37(43)	Form of Indemnification Agreement entered into with each of the Company s non-employee directors.
10.38	Fourth Amendment to the License Agreement effective June 30, 2009, by and among the Company, Alphatec Spine, Inc. and Progressive Spinal Technologies LLC.
10.39	Code of Conduct.
21.1	List of subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.
Confidential treatment has been requested with respect to portions of this document.

1 Incorporated by reference from Exhibit 2.1 to the Current Report on Form 8-K, filed with the Securities and Exchange Commission on. December 22, 2009.

2 Incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on April 20, 2006.

3 Incorporated by reference from Exhibit 3.4 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on May 26, 2006.

4 Incorporated by reference from Exhibit 4.1 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on May 26, 2006.

5 Incorporated by reference from Exhibit 4.2 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on February 6, 2006.

6 Incorporated by reference from Exhibit 4.3 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 4, 2009.

7 Incorporated by reference from Exhibit 4.4 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 4, 2009.

Table of Contents

8 Incorporated by reference from Exhibit 10.5 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on May 26, 2006.
9 Incorporated by reference from Exhibit 10.6 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on April 20, 2006.
10 Incorporated by reference from Exhibit 10.7 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on April 20, 2006.
11 Incorporated by reference from Exhibit 10.8 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on April 20, 2006.
12 Incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 12, 2008.
13 Incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 12, 2008.
14 Incorporated by reference from Exhibit 10.29 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on April 19, 2006.
15 Incorporated by reference from Exhibit 10.26 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on March 23, 2006.
16 Incorporated by reference from Exhibit 10.31 to the Registration Statement on Form S-1, as amended (Registration No. 333-131609), filed with the Securities and Exchange Commission on March 23, 2006.
17 Incorporated by reference from Exhibit 10.1 to the Current Annual Report on Form 8-K, filed with the Securities and Exchange Commission on June 6, 2007.
18 Incorporated by reference from Exhibit 10.17 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 17, 2008.
19 Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K, filed with the Securities and Exchange Commission on. June 18, 2008.
20 Incorporated by reference from Exhibit 10.30 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on April 2, 2007.
21 Incorporated by reference from Exhibit 10.20 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 17, 2008.
22 Incorporated by reference from Exhibit 10.15 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 4, 2009.
23 Incorporated by reference from Exhibit 10.16 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 4, 2009.
24 Incorporated by reference from Exhibit 10.30 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on April 2, 2007.
25 Incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 9, 2007.
26 Incorporated by reference from Exhibit 10.18 to the First Amendment to the Annual Report on Form 10-K/A, filed with the Securities and Exchange Commission on July 7, 2009.
27 Incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 9, 2007.
28 Incorporated by reference from Exhibit 10.29 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 17, 2008.
29 Incorporated by reference from Exhibit 10.22 to the First Amendment to the Annual Report on Form 10-K/A, filed with the Securities and Exchange Commission on July 7, 2009.
30 Incorporated by reference from Exhibit 10.23 to the First Amendment to the Annual Report on Form 10-K/A, filed with the Securities and Exchange Commission on July 7, 2009.
31 Incorporated by reference from Exhibit 10.3 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 12, 2008.
32 Incorporated by reference from Exhibit 10.4 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 12, 2008.
33 Incorporated by reference from Exhibit 10.26 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 4, 2009.

Table of Contents

34 Incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 6, 2008.
35 Incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 6, 2008.
36 Incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K, filed with the Securities and Exchange Commission on. December 22, 2009.
37 Incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 4, 2009.
38 Incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 4, 2009.
39 Incorporated by reference from Exhibit 10.3 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 4, 2009.
40 Incorporated by reference from Exhibit 10.2 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 5, 2009.
41 Incorporated by reference from Exhibit 10.3 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 5, 2009.
42 Incorporated by reference from Exhibit 10.4 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 5, 2009.
43 Incorporated by reference from Exhibit 10.5 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 5, 2009.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

ALPHATEC HOLDINGS, INC.

Dated: March 2, 2010

By: /s/ Dirk Kuyper
Name: Dirk Kuyper
Title: President and Chief Executive Officer (principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Mortimer Berkowitz III **Mortimer Berkowitz III**	Chairman of the Board of Directors	March 2, 2010
/s/ Peter C. Wulff **Peter C. Wulff**	Chief Financial Officer, Vice President and Treasurer (principal financial and accounting officer)	March 2, 2010
/s/ Rohit M. Desai **Rohit M. Desai**	Director	March 2, 2010
/s/ John H. Foster **John H. Foster**	Director	March 2, 2010
/s/ James R. Glynn **James R. Glynn**	Director	March 2, 2010
/s/ Stephen J. Hochschuler, M.D. **Stephen J. Hochschuler, M.D.**	Director	March 2, 2010
/s/ Siri S. Marshall **Siri S. Marshall**	Director	March 2, 2010
/s/ R. Ian Molson **R. Ian Molson**	Director	March 2, 2010
/s/ Stephen E. O Neil **Stephen E. O Neil**	Director	March 2, 2010

88

Table of Contents

ALPHATEC HOLDINGS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Alphatec Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Alphatec Holdings, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alphatec Holdings, Inc., at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alphatec Holdings, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 2, 2010

Table of Contents

ALPHATEC HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value data)

	December 31, 2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 10,085	$ 18,315
Accounts receivable, net	24,766	18,759
Inventories, net	29,515	24,170
Prepaid expenses and other current assets	3,128	3,847
Deferred income tax assets	128	418
Total current assets	67,622	65,509
Property and equipment, net	30,356	23,093
Goodwill	60,113	60,124
Intangibles, net	2,296	4,280
Other assets	1,501	2,542
Total assets	$ 161,888	$ 155,548
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 12,781	$ 10,504
Accrued expenses	16,439	16,739
Deferred revenue	2,135	1,858
Current portion of long-term debt	6,724	2,109
Total current liabilities	38,079	31,210
Long-term debt, less current portion	23,631	26,488
Other long-term liabilities	1,008	1,889
Deferred income tax liabilities	738	887
Commitments and contingencies		
Redeemable preferred stock, $0.0001 par value; 20,000 authorized at December 31, 2009 and 2008; 3,319 and 3,320 shares issued and outstanding at December 31, 2009 and 2008, respectively	23,603	23,605
Stockholders equity:		
Common stock, $0.0001 par value; 200,000 authorized; 52,558 and 47,411 shares issued and outstanding at December 31, 2009 and 2008, respectively	5	5
Additional paid-in capital	175,021	158,140
Accumulated other comprehensive income	1,263	1,495
Accumulated deficit	(101,460)	(88,171)
Total stockholders equity	74,829	71,469
Total liabilities and stockholders equity	$ 161,888	$ 155,548

See accompanying notes.

Table of Contents

ALPHATEC HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2009	2008	2007
Revenues	$ 132,156	$ 101,313	$ 80,031
Cost of revenues	48,015	36,605	29,824
Gross profit	84,141	64,708	50,207
Operating expenses:			
Research and development	13,487	12,965	6,360
In-process research and development	6,383	2,750	9,344
Sales and marketing	51,513	42,437	33,545
General and administrative	22,315	23,362	20,644
Litigation settlement		11,000	
Total operating expenses	93,698	92,514	69,893
Operating loss	(9,557)	(27,806)	(19,686)
Other income (expense):			
Interest income	67	374	793
Interest expense	(3,470)	(1,875)	(868)
Other income (expense), net	(86)	487	149
Total other income (expense)	(3,489)	(1,014)	74
Loss before taxes	(13,046)	(28,820)	(19,612)
Income tax provision	243	468	590
Net loss	$ (13,289)	$ (29,288)	$ (20,202)
Net loss per common share:			
Basic and diluted	$ (0.27)	$ (0.63)	$ (0.54)
Weighted-average shares used in computing net loss per share:			
Basic and diluted	49,292	46,290	37,283

See accompanying notes.

Table of Contents

ALPHATEC HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

	Common stock		Additional paid-in capital	Stock subscription	Accumulated other comprehensive income	Accumulated deficit	Total stockholders equity
	Shares	Amount					
Balance at December 31, 2006	34,774	$ 3	$ 113,563	$	$ 111	$ (38,681)	$ 74,996
Stock-based compensation			314				314
Exercise of stock options	3						
Repurchase of common stock	(465)						
Net proceeds from secondary public offering net of offering costs	10,000	1	32,232				32,233
Issuance of common stock for escrow settlement	301		1,119	(1,119)			
Issuance of common stock for put settlement	805		2,873				2,873
Issuance of common stock for JOM acquisition	281		846				846
Issuance of common stock for restricted share awards granted to employees	720						
Issuance of common stock for acquired technology	750	1	2,343				2,344
Cancellation of redeemable preferred stock from terminated employees			104				104
Stock subscription				1,119			1,119
Comprehensive loss:							
Foreign currency translation adjustments					223		223
Net loss						(20,202)	(20,202)
Total comprehensive loss							(19,979)
Balance at December 31, 2007	47,169	5	153,394		334	(58,883)	94,850
Stock-based compensation			2,855				2,855
Exercise of stock options	21		48				48
Repurchase and/or forfeiture of common stock	(99)		(211)				(211)
Profit disgorgement			22				22
Mark-to-market for performance-based stock options			(259)				(259)
Issuance of common stock for employee stock purchase plan	40		118				118
JOM acquisition-reversal of discount			149				149
Issuance of common stock for restricted share awards granted to employees	50						
Issuance of common stock in connection with license agreements	230		1,151				1,151
Cancellation of redeemable preferred stock from terminated employees			6				6
Issuance of warrants in connection with credit facility			867				867
Comprehensive loss:							
Foreign currency translation adjustments					1,161		1,161
Net loss						(29,288)	(29,288)
Total comprehensive loss							(28,127)
Balance at December 31, 2008	47,411	$ 5	$ 158,140	$	$ 1,495	$ (88,171)	$ 71,469

See accompanying notes.

Table of Contents

ALPHATEC HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)

(In thousands)

	Common stock		Additional paid-in capital	Stock subscription	Accumulated other comprehensive income	Accumulated deficit	Total stockholders equity
	Shares	Amount					
Balance at December 31, 2008	47,411	$ 5	$ 158,140	$	$ 1,495	$ (88,171)	$ 71,469
Stock-based compensation			3,222				3,222
Exercise of stock options	16		38				38
Repurchase and/or forfeiture of common stock	(93)		(216)				(216)
Mark-to-market for performance-based stock options			305				305
Issuance of common stock for employee stock purchase plan	47		112				112
Issuance of common stock for restricted share awards granted to employees	10						
Issuance of common stock in connection with license agreements	1,002		3,011				3,011
Issuance of common stock in connection with private placement, net of offering costs	3,937		9,907				9,907
Issuance of common stock in connection with litigation settlement	115		500				500
Issuance of common stock in connection with warrant exercise	113						
Cancellation of redeemable preferred stock from terminated employees			2				2
Comprehensive loss:							
Foreign currency translation adjustments					(232)		(232)
Net loss						(13,289)	(13,289)
Total comprehensive loss							(13,521)
Balance at December 31, 2009	52,558	$ 5	$ 175,021	$	$ 1,263	$ (101,460)	$ 74,829

See accompanying notes.

Table of Contents

ALPHATEC HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2009	2008	2007
Operating activities:			
Net loss	$ (13,289)	$ (29,288)	$ (20,202)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	11,956	8,731	10,472
Stock-based compensation	3,571	2,935	314
Interest expense related to amortization of debt discount, debt issuance costs and revaluation of put right	591	380	149
In-process research and development paid in stock	3,011	650	2,344
Provision for (recoveries from) doubtful accounts	5	330	(351)
Provision for excess and obsolete inventory	1,927	3,068	1,175
Loss on sale of property and equipment, net	53	17	
Deferred income taxes	141	401	32
Changes in operating assets and liabilities:			
Accounts receivable	(6,048)	(5,273)	(1,469)
Inventories	(7,274)	(6,586)	(7,378)
Prepaid expenses and other current assets	1,702	(1,132)	484
Other assets	395	(917)	(359)
Accounts payable	(1,825)	1,911	(253)
Accrued expenses and other liabilities	(741)	3,436	1,805
Deferred revenue	277	1,858	
Net cash used in operating activities	(5,548)	(19,479)	(13,237)
Investing activities:			
Acquisitions of Japan Ortho Medical, net of cash acquired			222
Acquisition of Alphatec Manufacturing, Inc., net of cash acquired			36
Proceeds from sale of (investment in) Noas Medical Company	383		(313)
Purchases of property and equipment	(11,823)	(13,002)	(5,372)
Purchase of intangible assets	(1,353)	(390)	
Return (purchase) of Scient x license fee		2,246	(2,612)
Proceeds from sale of property and equipment	60	10	
Certificate of deposit proceeds (purchase)		2,000	(900)
Net cash used in investing activities	(12,733)	(9,136)	(8,939)
Financing activities:			
Net proceeds from issuance of common stock	9,907		33,351
Exercise of stock options	38	48	
Repurchase of stock options		(48)	
Borrowings under lines of credit	5,768	24,100	20,839
Repayments under lines of credit	(2,533)	(15,430)	(21,607)
Escrow proceeds			952
Principal payments on capital lease obligations	(342)	(479)	(545)
Proceeds from issuance of notes payable		16,867	577
Principal payments on notes payable	(2,569)	(3,671)	(2,248)
Other		22	

Net cash provided by financing activities	10,269	21,409	31,319
Effect of exchange rate changes on cash and cash equivalents	(218)	(322)	(243)
Net (decrease) increase in cash and cash equivalents	(8,230)	(7,528)	8,900
Cash and cash equivalents at beginning of period	18,315	25,843	16,943
Cash and cash equivalents at end of period	$ 10,085	$ 18,315	$ 25,843

See accompanying notes.

Table of Contents

ALPHATEC HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)

	Year Ended December 31,		
	2009	2008	2007
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 2,245	$ 1,325	$ 686
Cash paid for income taxes	$ 158	$ 501	$ 93
Revaluation of put right	$	$	$ 149
Purchases of property and equipment in accounts payable	$ 4,115	$ 2,267	$
Purchase of software licenses through vendor financing arrangement	$	$ 492	$
Financing of insurance premiums by insurance provider	$ 997	$ 764	$
Issuance of common stock for litigation settlement	$ 500	$	$
Purchase of property and equipment through capital leases	$ 96	$	$
Non-cash exercise of warrants	$ 360	$	$

See accompanying notes.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

The Company

Alphatec Holdings, Inc. (Alphatec, Alphatec Holdings or the Company) was incorporated in the state of Delaware in March 2005 in order to acquire 100% of the outstanding capital stock of Alphatec Spine, Inc. (Alphatec Spine) on March 18, 2005. Alphatec Spine, formerly known as Alphatec Manufacturing, Inc., is a California corporation that was incorporated in May 1990 and is engaged in the development, manufacturing and sale of medical devices for use in spinal surgeries with a focus on providing solutions for products affecting the aging spine. Alphatec Holdings principal operating activities are conducted through Alphatec Spine and its wholly owned and consolidated subsidiaries, Nexmed, Inc. (Nexmed), a California corporation, Alphatec Pacific, Inc. (Alphatec Pacific), a Japanese corporation, and Milverton Limited, a Hong Kong corporation.

Basis of Presentation

The consolidated financial statements include the accounts of Alphatec and Alphatec Spine and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. A going concern basis of accounting contemplates the recovery of the Company s assets and the satisfaction of its liabilities in the normal course of business. Based on the Company s annual operating plan, management believes that its existing cash and cash equivalents of $10.1 million and available credit of $0.3 million at December 31, 2009 and cash raised in a February 2010 equity offering (See Note 15) will be sufficient to fund its cash requirements through at least December 31, 2010 without consideration of the acquisition of Scient x as discussed below (See Note 15).

In December 2008, the Company entered into a Loan and Security Agreement (the Credit Facility) with Silicon Valley Bank and Oxford Finance Corporation (the Lenders) (See Note 6). In conjunction with the Credit Facility, the Company is required to maintain compliance with quarterly financial covenants, which include a minimum level of revenues and a minimum level of adjusted EBITDA (a non-GAAP term defined in Note 6). The minimum covenants are consistent each quarter during fiscal 2010. In order to meet the financial covenants for 2010, the Company will need to achieve growth over its historical quarterly revenue and earnings levels. The Company s 2010 board of directors approved operating plan shows that the Company would meet the quarterly financial covenants and management believes that it will be able to achieve this operating plan. However, if the Company is not able to achieve its planned revenue growth or incurs costs in excess of its forecast, it could be in default of the Credit Facility. In addition to the financial covenants described above, there are other clauses including subjective clauses that would allow the Lenders to declare the loan immediately due and payable (See Note 6). Upon the occurrence of an event of default under the Credit Facility, the Lenders could elect to declare all amounts outstanding under the Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. If the Lenders were to accelerate the repayment of borrowings under the Credit Facility for any reason, the Company may not have sufficient cash on hand to repay the amounts borrowed under the Credit Facility.

On December 17, 2009, the Company entered into an acquisition agreement to acquire all the shares of Scient x Groupe S.A.S. (Scient x), a French medical device company that is controlled by HealthpointCapital who owns approximately 38.1% of the Company s outstanding common stock at December 31, 2009 (See Note 15). Scient x is also a spine implant manufacturing and distribution business with operations concentrated in Europe. Subsequent to the closing of the acquisition, the Company will be responsible for managing the operations of the combined entities. Scient x currently has a credit facility requiring the achievement of a

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

minimum revenue amount as specified in the credit facility. While the operating plan of Scient x shows that Scient x will achieve those covenants, if Scient x is not able to achieve its planned revenue growth, it could be in default of its credit facility. In addition to the financial covenant, there are other clauses including subjective clauses that would allow the Lenders to declare the loan immediately due and payable. Upon the occurrence of an event of default under the credit facility, the lenders could elect to declare all amounts outstanding under the credit facility to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings under the credit facility for any reason, the Company may not have sufficient cash on hand to repay the amounts borrowed under the credit facility.

Based on the Company s plan for combining the operating activities of these two companies, which includes a combined operating plan and cash forecast, management believes that on a combined basis, the Company will have sufficient working capital to fund its cash requirements through December 31, 2010. Assuming the acquisition occurs, if either the Company or Scient x is not able to achieve the minimum targeted revenue growth and related improvements in profitability to meet the quarterly covenants or has other unanticipated expenditures, the Company would be required to attempt to renegotiate the Credit Facility and may be required to seek additional capital and/or to substantially reduce discretionary spending, which could have a material adverse effect on the Company s ability to achieve its intended business objectives. The Company may seek additional financing, which may include additional debt and/or equity financing or funding through other third party agreements. The Company intends to enter into a new credit facility upon the closing of the acquisition which would include financial covenants reflective of the combined operations of the Company and Scient x. There can be no assurance that such new credit facility or any additional financing will be available on acceptable terms or available at all. Any equity financing may result in dilution to existing stockholders and any debt financing may include restrictive covenants.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the Company s consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Concentrations of Credit Risk and Significant Customers

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. The Company limits its exposure to credit loss by depositing its cash and cash equivalents with established financial institutions. As of December 31, 2009 a substantial portion of our available cash funds is in business accounts. Although the Company deposits its cash and cash equivalents with multiple financial institutions, its deposits, at times, may exceed federally insured limits.

The Company s customers are primarily hospitals or surgical centers and no single customer represented greater than 10 percent of consolidated revenues for any of the periods presented. Credit to customers is granted based on an analysis of the customers credit worthiness and credit losses have not been significant.

Revenue Recognition

The Company derives its revenues primarily from the sale of spinal surgery implants used in the treatment of spine disorders. The Company sells its products primarily through its direct sales force and independent

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

distributors. Revenue is recognized when all four of the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectibility is reasonably assured. In addition, the Company accounts for revenue under provisions which sets forth guidelines for the timing of revenue recognition based upon factors such as passage of title, installation, payment and customer acceptance.

The Company s revenue from sales of spinal and other surgical implants is recognized upon receipt of written acknowledgement that the product has been used in a surgical procedure or upon shipment to third-party customers who immediately accept title to such implant.

Deferred Revenues

Deferred revenues consist of products sold to distributors with payment terms greater than the Company s customary business terms due to lack of credit history or operating in a new market in which the Company has no prior experience. The Company defers the recognition of revenue until payments become due or cash is received from these distributors.

Cash and Cash Equivalents

The Company considers all investments with a maturity of three months or less from the date of acquisition to be cash equivalents. Cash equivalents primarily represent funds invested in money market funds, whose cost equals fair market value.

Accounts Receivable

Accounts receivable are presented net of allowance for doubtful accounts. The Company makes judgments as to its ability to collect outstanding receivables and provides allowances for a portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices and the overall quality and age of those invoices not specifically reviewed. In determining the provision for invoices not specifically reviewed, the Company analyzes historical collection experience. If the historical data used to calculate the allowance provided for doubtful accounts does not reflect the Company s future ability to collect outstanding receivables or if the financial condition of customers were to deteriorate, resulting in impairment of their ability to make payments, an increase in the provision for doubtful accounts may be required.

Inventories

Inventories are stated at the lower of cost or market, with cost primarily determined under the first-in, first-out method. The Company reviews the components of inventory on a periodic basis for excess, obsolete and impaired inventory, and records a reserve for the identified items. The Company calculates an inventory reserve for estimated excess and obsolete inventory based upon historical turnover and assumptions about future demand for its products and market conditions. The Company s biologic implant inventories have a five-year shelf life and are subject to demand fluctuations based on the availability and demand for alternative implant products. The Company s estimates and assumptions for excess and obsolete inventory are reviewed and updated on a quarterly basis. Increases in the reserve for excess and obsolete inventory result in a corresponding increase to cost of revenues and establish a new cost basis for the part.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally ranging

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

from two to seven years. Leasehold improvements and assets acquired under capital leases are amortized over the shorter of their useful lives or the terms of the related leases.

Instrument Useful Lives

During the first quarter of 2008, the Company completed a review of the estimated useful lives of its spinal disorder product instrumentation. After reviewing internal plans, analyzing and testing the historical useful life of instrumentation, forecasting product life cycles and demand expectations, the useful life was extended from two to four years. The extension of depreciable lives qualifies as a change in accounting estimate and was made on a prospective basis effective January 1, 2008. For the years ended December 31, 2009 and 2008, depreciation expense was $4.1 million and $2.9 million, respectively, less than it would have been had the depreciable lives not been extended. The effect of this change on basic and diluted net loss per share for the years ended December 31, 2009 and 2008 was $0.08 and $0.06, respectively. Depreciation expense for instruments is included in cost of revenues in the consolidated statement of operations.

Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with provisions which require that goodwill and other identifiable intangible assets with indefinite useful lives be tested for impairment at least annually. The Company tests goodwill and intangible assets for impairment in December of each year, or more frequently if events and circumstances warrant. These assets are impaired if the Company determines that their carrying values may not be recoverable based on an assessment of certain events or changes in circumstances. If the assets are considered to be impaired, the Company recognizes the amount by which the carrying value of the assets exceeds the fair value of the assets as an impairment loss. The Company has not recognized any impairment losses through December 31, 2009.

The accounting provisions also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for indicators of impairment. The Company is amortizing its intangible assets, other than goodwill, on a straight-line basis over a one to ten-year period.

Impairment of Long-Lived Assets

The Company assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of the long-lived assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds it fair value and is recorded as a reduction in the carrying value of the related asset and a charge to operating results. The Company has not recognized any impairment loss through December 31, 2009.

Foreign Currency

The Company s results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The Company s primary functional currency is the U.S. dollar, while the functional currency of the Company s Japanese subsidiary is the Japanese yen, the Hong Kong subsidiary is the Hong Kong dollar and the functional currency of the Company s European operations is the Euro. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated using the average exchange rate for the period. Net gains and losses resulting from the translation of foreign financial statements are recorded as accumulated other comprehensive income (loss) in

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stockholders equity. Net foreign currency gains or (losses) are included in other income (expense), net in the accompanying consolidated statements of operations. For the years ended December 31, 2009, 2008 and 2007, the Company recorded net foreign currency gains of approximately $0, $0.4 million and $0.1 million, respectively.

Fair Value of Financial Instruments

The carrying value of accounts receivable, foreign cash accounts, prepaid expenses, other current assets, accounts payable, accrued expenses, and current portion of debt are considered to be representative of their respective fair values because of the short- term nature of those instruments. Based on the borrowing rates currently available to the Company for loans with similar terms, management believes the fair value of notes payable, capital leases and other long-term debt approximates their carrying values.

The Company measures its fair value of financial instruments in accordance with the established framework for fair value using levels which are defined as follows: Level 1 fair value is determined from observable, quoted prices in active markets for identical assets or liabilities. Level 2 fair value is determined from quoted prices for similar items in active markets or quoted prices for identical or similar items in markets that are not active. Level 3 fair value is determined using the entity s own assumptions about the inputs that market participants would use in pricing an asset or liability.

Research and Development

Research and development expenses consist of costs incurred to further the Company s research and development activities and are expensed as incurred.

In-Process Research and Development

In-process research and development (IPR&D) consists of acquired research and development assets that were not technologically feasible on the date the Company acquired them and had no alternative future use at that date. The Company expects all acquired IPR&D will reach technological feasibility, but there can be no assurance that commercial viability of these products will be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing, developing and testing products in order to obtain regulatory approvals. If commercial viability were not achieved, the Company would likely look to other alternatives to provide these products. Until the technological feasibility of the acquired research and development assets are established, the Company will be expensing these costs.

Leases

The Company leases its facilities and certain equipment and vehicles under operating leases, and certain equipment under capital leases. For facility leases that contain rent escalation or rent concession provisions, the Company records the total rent payable during the lease term on a straight-line basis over the term of the lease. The Company records the difference between the rent paid and the straight-line rent as a deferred rent liability in the accompanying consolidated balance sheets.

Product Shipment Cost

Product shipment costs are included in sales and marketing expense in the accompanying consolidated statements of operations. Product shipment costs totaled $1.3 million, $1.1 million and $0.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs for each of the periods presented in the accompanying statements of operations were not significant.

Stock-Based Compensation

The Company accounts for stock-based compensation under provisions which require that share-based payment transactions with employees be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. The amount of expense recognized during the period is affected by subjective assumptions, including: estimates of the Company s future volatility, the expected term for its stock options, the number of options expected to ultimately vest, and the timing of vesting for the Company s share-based awards.

The Company uses a Black-Scholes-Merton option-pricing model to estimate the fair value of its stock option awards. The calculation of the fair value of the awards using the Black-Scholes-Merton option-pricing model is affected by the Company s stock price on the date of grant as well as assumptions regarding the following:

Estimated volatility is a measure of the amount by which the Company s stock price is expected to fluctuate each year during the expected life of the award. The Company s estimated volatility through December 31, 2009 was based on a weighted-average volatility of its actual historical volatility since its initial public offering in June 2006 and the historical stock volatilities of similar peer entities whose stock prices were publicly available. Its calculation of estimated volatility is based in part on historical stock prices of these peer entities over a period equal to the expected life of the awards. The Company continues to use the historical volatility of peer entities due to the lack of sufficient historical data of its stock price since its initial public offering.

The expected term represents the period of time that awards granted are expected to be outstanding. Through December 31, 2009, the Company calculated the expected term using a weighted-average term based on historical exercise patterns and the term from option date to full exercise for the options granted within the specified date range.

The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award.

The assumed dividend yield is based on the Company s expectation of not paying dividends in the foreseeable future.

The Company used historical data to estimate the number of future stock option forfeitures. Share-based compensation recorded in the Company s consolidated statement of operations is based on awards expected to ultimately vest and has been reduced for estimated forfeitures. The Company s estimated forfeiture rates may differ from its actual forfeitures which would affect the amount of expense recognized during the period.

The Company accounts for stock option grants to non-employees in accordance with provisions which require that the fair value of these instruments be recognized as an expense over the period in which the related services are rendered.

Share-based compensation expense of awards with performance conditions is recognized over the period from the date the performance condition is determined to be probable of occurring through the time the applicable condition is met. Determining the likelihood and timing of achieving performance conditions is a

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subjective judgment made by management which may affect the amount and timing of expense related to these share-based awards. Share-based compensation is adjusted to reflect the value of options which ultimately vest as such amounts become known in future periods.

Valuation of Stock Option Awards

The assumptions used to compute the share-based compensation costs for the stock options granted during the years ended December 31, 2009, 2008 and 2007 are as follows:

	Year Ended December 31,		
	2009	2008	2007
Risk-free interest rate	2.0-2.8%	2.4-3.5%	3.6-4.9%
Expected dividend yield			
Weighted average expected life (years)	6.1-6.2	6.2-6.3	6.3-6.5
Volatility	57-58%	51-57%	51-62%

Compensation Costs

The compensation cost that has been included in the Company s consolidated statement of operations for all stock-based compensation arrangements is detailed as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2009	2008	2007
Cost of revenues	$ 245	$ 236	$ 112
Research and development	965	580	184
Sales and marketing	807	760	267
General and administrative	1,554	1,359	(249)
Total	$ 3,571	$ 2,935	$ 314
Effect on basic and diluted net loss per share	$ (0.07)	$ (0.06)	$ (0.01)

The amounts above include stock-based compensation expense of $0.5 million, $0.4 million and $0.4 million during the years ended December 31, 2009, 2008 and 2007, respectively, related to the vesting of stock options and awards granted to non-employees under consulting agreements. In addition, $0.3 million and $0.1 million of compensation expense is included in the amount above for the years ended December 31, 2009 and 2008, respectively, relating to the consulting agreement the Company has with Stout Medical Consulting Group LP (Stout). See Note 5.

The stock-based compensation recorded in 2007 of $0.3 million is net of the reversal of $0.5 million of stock compensation related to certain executives that was recognized in 2006 in accordance with their employment contracts, and was reversed as a result of a settlement agreement that was reached in June 2007.

In the fourth quarter of 2006 and continuing into 2007, the Company experienced significant turnover at both the executive and management levels, which affected the Company s estimated forfeiture rate. During 2007, the Company assessed the impact of such turnover on its forfeiture rate and in turn on stock-based compensation. As a result, the Company recorded an adjustment to reduce this expense by approximately $0.9 million. The impact of the change in the estimated forfeiture rate to compute stock-based compensation is recognized through a cumulative catch-up adjustment in the period it was determined.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income Taxes

The Company accounts for income taxes in accordance with provisions which set forth an asset and liability approach that requires the recognition of deferred tax assets and deferred tax liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. In making such determination, a review of all available positive and negative evidence must be considered, including scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision.

Net Loss per Share

Basic earnings per share (EPS) is calculated by dividing the net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, common stock subject to repurchase by the Company and options are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive. (In thousands, except per share data):

	Year Ended December 31,		
	2009	2008	2007
Numerator:			
Net loss	$ (13,289)	$ (29,288)	$ (20,202)
Denominator:			
Weighted average common shares outstanding	50,077	47,339	38,567
Weighted average unvested common shares subject to repurchase	(785)	(1,049)	(1,284)
Weighted average common shares outstanding basic and diluted	49,292	46,290	37,283
Net loss per common share:			
Basic and diluted	$ (0.27)	$ (0.63)	$ (0.54)

As of December 31, 2009, 2008 and 2007, none of the outstanding redeemable preferred stock is convertible to common stock.

The weighted-average anti-dilutive securities not included in diluted net loss per share were as follows (in thousands):

	Year Ended December 31,	
	2009	2008
Options to purchase common stock	2,372	1,439
Warrants to purchase common stock	425	29
Unvested restricted stock awards	785	1,134
	3,582	2,602

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance that requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management s estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not expect adoption to have a material impact on the Company s financial position or results of operations.

Effective July 1, 2009, the Company adopted newly issued accounting guidance which establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The Codification does not change GAAP and did not impact the Company s financial position or results of operations.

In June 2009, the Company adopted newly issued accounting guidance which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption did not have a material impact on the Company s financial position or results of operations.

Effective January 1, 2009, the Company adopted newly issued accounting guidance for the useful life of intangible assets. The guidance amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset and also requires expanded disclosure related to the determination of intangible asset useful lives. The adoption did not have a material impact on the Company s financial position or results of operations.

Effective January 1, 2009, the Company adopted newly issued accounting guidance for business combinations. The guidance retains the purchase method of accounting for acquisitions, but requires an acquiring company to measure all assets acquired and liabilities assumed, including contingent considerations and contractual contingencies, at fair value as of the acquisition date. In addition, an acquiring company is required to capitalize in-process research and development and either amortize it over the life of the product, or expense it upon abandonment or impairment. The guidance also requires expensing of acquisition-related costs as incurred. The new guidance applies to business combinations completed on or after January 1, 2009.

Effective January 1, 2009, the Company adopted newly issued accounting guidance that addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. The new guidance applies to business combinations completed on or after January 1, 2009.

3. Acquisitions and Investment

Alphatec Spine, Inc.

On March 18, 2005, Alphatec Holdings acquired all of the outstanding capital stock of Alphatec Spine. The acquisition was funded out of the net proceeds from the Company s initial capitalization in March 2005. The

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

results of operations of Alphatec Spine have been included in the consolidated financial statements of Alphatec Holdings from the date of acquisition. The total cost of the acquisition was as follows (in thousands):

Cash paid for common stock and stock options	$ 70,000
Debt assumed as a result of acquisition	5,458
Direct costs	1,046
Total purchase price	$ 76,504

Pursuant to the acquisition agreement, the stockholders of Alphatec Manufacturing put $3.0 million in escrow in order to fund potential indemnification claims for losses incurred by the Company. The Company subsequently filed a claim for indemnification of $4.5 million in claims, primarily relating to obsolete inventory, certain tax liabilities and uncollectible accounts receivable. On March 3, 2007, the Company settled the claim and received $1.0 million, which was applied as a reduction of goodwill. The remaining $2.2 million, including $0.2 million in interest earned, in the escrow fund was returned to the stockholders of Alphatec Manufacturing. Certain stockholders of Alphatec Manufacturing used the proceeds from the distribution to purchase an aggregate of $1.1 million of the Company s common stock in a private placement.

Acquisitions in Japan

Buyback of Distribution Rights

On August 11, 2005, the Company paid $3.1 million to repurchase its distribution rights in Japan. The transaction was entirely financed by Alphatec Pacific s former Chairman, President and Chief Executive Officer, Mr. Yoshimi, in return for the issuance of a note payable that was to be repaid in 18 equal monthly installments of $0.2 million (18.46% effective interest rate to scheduled maturity), beginning December 1, 2005. As additional compensation for making the loan to the Company, the Company entered into a stock repurchase agreement pursuant to which the Company granted Mr. Yoshimi a 20% interest in Alphatec Pacific, which had an estimated value of $0.6 million. The note, plus accrued interest, totaling $3.0 million, was paid in full from the initial public offering proceeds in June 2006. The terms of the stock repurchase agreement required the Company to repurchase the shares of Alphatec Pacific owned by Mr. Yoshimi upon certain conditions, or upon the election of Mr. Yoshimi at any time following the first anniversary of the Company s initial public offering. Mr. Yoshimi exercised this right on June 2, 2007 and the Company s Board of Directors elected to pay the purchase price of $2.9 million for such Alphatec Pacific shares in the form of 804,874 shares of the Company s common stock in accordance with the stock purchase agreement governing such transaction.

Japan Ortho Medical (formerly Blues Medica Japan)

On May 1, 2007, Alphatec Pacific acquired all of the outstanding capital stock of Blues Medica Japan (the JOM Predecessor), a spinal and orthopedic implant distributor. The results of operations of Japan Ortho Medical have been included in these consolidated financial statements from the date of acquisition. The total cost of the acquisition was as follows (in thousands):

Cash paid for common stock	$ 292
Debt assumed as a result of acquisition	1,143
Common stock issued	846
Direct costs	15
Total purchase price	$ 2,296

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The original purchase price allocation is shown below (in thousands):

Cash and cash equivalents	$ 505
Accounts receivable	478
Inventories	202
Prepaid expenses and other current assets	184
Property and equipment, net	718
Other assets	231
Accounts payable	(316)
Accrued and other expenses	(838)
Net tangible assets	1,164
Goodwill	486
Distribution rights	646
Total purchase price	$ 2,296

The fair value of the acquired tangible assets and assumed liabilities was equal to the JOM Predecessor s carrying value on May 1, 2007, the date of acquisition. The purchase agreement includes two contingent payments to the former owner of the JOM Predecessor based upon a percentage of the 2007 and 2008 revenues. This contingency was recorded in accrued expenses in the purchase price allocation and was based upon projected revenue. The Company performed a valuation of the distribution rights in order to allocate the purchase price between identifiable intangibles and goodwill in the fourth quarter of 2007. The distribution rights are being amortized on a straight-line basis over three years. The enhancement of the Company s Japanese distribution network was the primary factor that contributed to a purchase price resulting in the recognition of the distribution rights and goodwill as intangible assets.

Noas Medical Company

In April 2007, Alphatec Pacific purchased 500 shares, valued at $0.3 million, of Noas, a Japanese spinal and orthopedic implant distributor in order to establish a strategic alliance. The investment represents approximately a 3% ownership and is accounted for on a cost basis. The balance of the Noas Investment was $0.4 million as of December 31, 2008. In March 2009, Alphatec Pacific sold its investment in Noas for $0.4 million.

4. Balance Sheet Details

Accounts Receivable

Accounts receivable consist of the following (in thousands):

	December 31, 2009	2008
Accounts receivable	$ 25,084	$ 19,092
Allowance for doubtful accounts	(318)	(333)
Accounts receivables, net	$ 24,766	$ 18,759

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories

Inventories consist of the following (in thousands):

	December 31, 2009			December 31, 2008		
	Gross	Reserve for excess and obsolete	Net	Gross	Reserve for excess and obsolete	Net
Raw materials	$ 2,866	$	$ 2,866	$ 1,814	$	$ 1,814
Work-in-process	1,644		1,644	1,208		1,208
Finished goods	33,650	(8,645)	25,005	32,317	(11,169)	21,148
Inventories	$ 38,160	$ (8,645)	$ 29,515	$ 35,339	$ (11,169)	$ 24,170

Property and Equipment

Property and equipment consist of the following (in thousands):

	Useful lives (in years)	December 31, 2009	December 31, 2008
Surgical instruments	4	$ 35,286	$ 23,505
Machinery and equipment	7	9,684	8,209
Computer equipment	5	2,575	2,446
Office furniture and equipment	5	3,128	3,011
Leasehold improvements	various	3,355	1,972
Building	39	201	204
Land	n/a	15	15
Construction in progress	n/a	368	787
		54,612	40,149
Less accumulated depreciation and amortization		(24,256)	(17,056)
Property and equipment, net		$ 30,356	$ 23,093

Total depreciation expense was $8.6 million, $5.1 million and $6.6 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The Company has assets under capital leases of $3.1 million and $3.0 million at December 31, 2009 and 2008, respectively. Accumulated depreciation on these assets totaled $2.5 million and $2.2 million at December 31, 2009 and 2008, respectively. Depreciation expense for these capital leases included in total depreciation expense above was $0.3 million, $0.5 million and $0.6 million, for the years ended December 31, 2009, 2008 and 2007, respectively.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible Assets

Intangibles assets consist of the following (in thousands):

	Useful lives (in years)	December 31, 2009	December 31, 2008
Developed product technology	5	$ 13,700	$ 13,700
Distribution rights	3	3,737	3,787
Intellectual property	5	1,004	
License agreement	1	350	
Supply agreement	10	225	225
		19,016	17,712
Less accumulated amortization		(16,720)	(13,432)
Intangible assets, net		$ 2,296	$ 4,280

Total amortization expense was $3.3 million, $3.6 million and $3.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The future expected amortization expense related to intangible assets as of December 31, 2009 is as follows (in thousands):

Year Ending December 31,	
2009	$ 1,285
2010	301
2011	301
2012	256
2013	153
Thereafter	
Total	$ 2,296

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31, 2009	December 31, 2008
Accrued earnout	$	$ 316
Reserve for litigation costs		2,200
Current portion of severance payable	3	423
Consumption tax	62	76
Legal	273	295

Deferred rent	2,277	1,170
Royalties	2,615	3,011
Commissions	3,072	2,305
Payroll and related	4,185	3,522
Other	3,952	3,421
Total accrued expenses	$ 16,439	$ 16,739

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Revenues

During the years ended December 31, 2009 and 2008, the Company shipped $4.8 million and $2.1 million, respectively, of product to European distributors in which the terms of such sales included extended payment terms. As a result of offering payment terms greater than the Company s customary U.S. business terms, and operating in a new market in which the Company has limited prior experience, revenues for purchases by distributors in Europe have been deferred until the earlier of either the date upon which payments are due or until cash is received for such purchases. The balance in deferred revenue relating to European distributors as of December 31, 2009 and 2008 was $1.3 million and $0.9 million, respectively.

During the years ended December 31, 2009 and 2008, the Company shipped $1.8 million and $1.9 million, respectively, of product to a U.S. distributor that did not have an extensive credit history. As a result of a lack of extensive credit history, revenues for purchases by this distributor have been deferred until cash is received. The balance in deferred revenue relating to this distributor as of December 31, 2009 and 2008 was $0.8 million and $1.0 million, respectively.

5. License and Consulting Agreements

OsseoFix Fracture Reduction System License Agreement

On April 16, 2009, the Company and Stout amended the license agreement that the parties had entered into in September 2007 (the License Amendment) that provides the Company with a worldwide license to develop and commercialize Stout s proprietary intellectual property related to a treatment for vertebral compression fractures. The effective date of the License Amendment is March 31, 2009. Under the License Amendment, the timing of the minimum royalty payments has been adjusted and Stout s ability to terminate the License Amendment was revised. Under the original license agreement, the Company s minimum royalty obligation began in the year ending December 31, 2009. Pursuant to the License Amendment, the minimum royalty obligation is suspended until a licensed product obtains regulatory approval from the United States Food and Drug Administration (the FDA). In addition, under the terms of the License Amendment, Stout has the ability to terminate the License Amendment if the Company is not using commercially reasonably efforts to obtain regulatory approval to market and sell a licensed product; provided that the Company has the right to delay such termination in exchange for making certain payments to Stout. If, during the time period when such payments are made, the Company were to make a regulatory filing for the marketing and sale of a licensed product, such termination will be null and void. Pursuant to the License Amendment, Stout is entitled to retain all up-front payments that had been previously paid to it. The other material terms to the license agreement were not changed in the License Amendment.

Expandable VBR License and Consulting Agreement

On April 15, 2009, the Company and Stout amended and restated the license agreement that the parties had entered into in March 2008 (the Amended and Restated License Agreement) that provides the Company with a worldwide license to develop and commercialize Stout s proprietary intellectual property related to an expandable interbody/vertebral body replacement device. The effective date of the Amended and Restated License Agreement is March 31, 2009. Under the Amended and Restated License Agreement, the timing of the minimum royalty payments has been adjusted and Stout s ability to terminate the Amended and Restated License Agreement was revised. Under the original license agreement, the Company s minimum royalty obligation began in the year ending December 31, 2010. Pursuant to the Amended and Restated License Agreement, if the Company is required to initiate a clinical trial to obtain clearance from the FDA for a licensed product, the minimum royalty obligation is suspended until such licensed product obtains regulatory approval. In addition,

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

under the terms of the Amended and Restated License Agreement, Stout has the ability to terminate the Amended and Restated License Agreement if the Company has not filed for regulatory approval to market and sell a licensed product within an allotted time period; provided that the Company has the right to delay such termination in exchange for making certain payments to Stout. If, during the time period when such payments are made, the Company were to make a regulatory filing for the marketing and sale of a licensed product, such termination would be null and void. Pursuant to the Amended and Restated License Agreement, Stout is entitled to retain all up-front payments that had been previously paid to it. The other material terms to the original license agreement were not changed in the Amended and Restated License Agreement.

Additionally, effective March 31, 2009 the Company and Stout amended and restated the developmental consulting agreement that the parties had entered into in March 2008 (the Amended and Restated Consulting Agreement) pursuant to which Stout agreed to provide consulting services related to the development of an expandable interbody/vertebral body replacement device. Under the Amended and Restated Consulting Agreement, the timing and amount of consulting fees has been adjusted. Under the original consulting agreement, the Company was obligated to make ten monthly payments of $50,000 to compensate Stout for providing development services. As of the effective date of the Amended and Restated Consulting Agreement, the Company had paid Stout $0.4 million of such consulting fees, and had expensed $0.2 million of such fees. Pursuant to the Amended and Restated Consulting Agreement, Stout returned such $0.4 million to the Company in April 2009. The terms of the Amended and Restated Consulting Agreement call for the Company to pay consulting fees of $20,000 per month for 12 months beginning in July 2009, provided that the agreement is in full force and effect. Pursuant to the Amended and Restated Consulting Agreement, Stout is entitled to retain the 101,944 shares of restricted stock of the Company that the Company had previously issued to Stout. Such restricted stock would become vested upon the attainment of a development milestone. The other material terms to the original consulting agreement were not changed. As the total cash consideration has been reduced to $0.2 million, the Company is recording the remaining amount that had not yet been expensed over the expected development period.

OsseoScrew License Agreement

In December 2007, the Company entered into an exclusive license agreement, (the OsseoScrew License Agreement), with Progressive Spinal Technologies LLC (PST), which provides the Company with an exclusive worldwide license to develop and commercialize PST s proprietary intellectual property related to an expanding pedicle screw with increased pull-out strength. The financial terms of the OsseoScrew License Agreement include: (i) a cash payment payable following the execution of the agreement; (ii) development and sales milestone payments in cash and the Company s common stock that began to be achieved and paid in 2008; and (iii) a royalty payment based on net sales of licensed products with minimum annual royalties beginning in 2009. The Company recorded a charge for IPR&D of $2.0 million in the fourth quarter of 2007 for the initial payment, as the technological feasibility associated with the IPR&D since the final prototype of the device had not been established and no alternative future use exists. The agreement includes milestone payments of $3.6 million consisting of cash and its common stock upon the completion of the biomechanical testing. Furthermore, the agreement includes milestone payments of $2.5 million consisting of cash and the Company s common stock upon market launch, which may occur in the first half of 2010. During the second quarter of 2009, the Company successfully completed one of its development milestones and recorded an IPR&D charge totaling $3.6 million, which consisted of a cash payment of $1.8 million and the issuance of $1.8 million of shares of the Company s common stock. The amounts were expensed as the technological feasibility associated with the IPR&D had not been established since the final prototype of the device had not been completed, and no alternative future use exists. The total number of shares of common stock, which were issued on July 15, 2009, was 567,821.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2009, the Company and PST amended and restated the license agreement that the parties had entered into in December 2007 (the Amended and Restated OsseoScrew License Agreement) which provides the Company with an exclusive worldwide license to develop and commercialize PST s proprietary intellectual property related to an expanding pedicle screw with increased pull-out strength. Under the Amended and Restated OsseoScrew License Agreement, the timing and payment of a $0.5 million development and sales milestone payment and royalty payment has been adjusted. The Company recorded a charge for IPR&D of $0.5 million in the fourth quarter of 2009 upon completion of an animal study, as the technological feasibility associated with the IPR&D since the final prototype of the device had not been established and no alternative future use exists. The timing of the royalty payments based on net sales of licensed products has been amended and minimum annual royalties begin in 2010 instead of 2009.

Assignment Agreement with Spine Vision, S.A.

In January 2009, the Company entered into an assignment agreement (the Patent and Technology Assignment Agreement) with Spine Vision, S.A (Spine Vision) that assigns to the Company all rights, title and interests to certain patents and technology of Spine Vision that relate to a stand-alone locking interbody device. The financial terms of the Patent and Technology Assignment Agreement include: (i) an initial payment of $0.5 million; and (ii) a royalty payment based on the net sales of any product that contains the assigned intellectual property. During the first quarter of 2009, the Company recorded an IPR&D charge of $0.5 million for the initial payment, as the technological feasibility associated with the IPR&D had not been established since the final prototype of the device had not been completed, and no alternative future use exists.

License Agreement with Helix Point, LLC

In February 2009, the Company entered into a License Agreement with Helix Point, LLC (the Helifuse/Helifix License Agreement) that provides the Company with a worldwide exclusive license (excluding the People s Republic of China) to develop and commercialize Helix Point s proprietary intellectual property related to a device for the treatment of spinal stenosis. The financial terms of the Helifuse/Helifix License Agreement include: (i) a cash payment of $0.2 million payable following the execution of the Helifuse/Helifix License Agreement; (ii) the issuance of $0.4 million of shares of the Company s common stock following the execution of the Helifuse/Helifix License Agreement; (iii) development and sales milestone payments in cash and the Company s common stock that could begin to be achieved and paid in 2010; and (iv) a royalty payment based on net sales of licensed products, with minimum annual royalties beginning in the year after the first commercial sale of a licensed product. During the first quarter of 2009, the Company recorded an IPR&D charge of $0.6 million for the initial cash and stock payment, as the technological feasibility associated with the IPR&D had not been established since the final prototype of the device had not been completed, and no alternative future use exists.

License Agreement with International Spinal Innovations, LLC

In June 2009, the Company entered into a Cross License Agreement (the ISI License Agreement) with International Spinal Innovations, LLC (ISI) that provides the Company with a worldwide license to develop and commercialize ISI s proprietary intellectual property related to a stand-alone anterior lumbar interbody fusion device. The financial terms of the ISI License Agreement include: (i) the issuance of 260,000 shares of the Company s common stock following the execution of the ISI License Agreement; (ii) sales milestone payments in cash that could begin to be achieved and paid in 2011; and (iii) a royalty payment based on net sales of licensed products with minimum annual royalties beginning in the year after the first commercial sale of a licensed product. During the second quarter of 2009, the Company recorded an IPR&D charge of $0.9 million for the stock issuance on June 30, 2009, as the technological feasibility associated with the IPR&D had not been established since the final prototype of the device had not been completed, and no alternative future use exists.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Supply Agreement with ETEX Corporation

In October 2009, Alphatec Spine entered into a supply and distribution agreement with ETEX Corporation, (the ETEX Agreement), which provides Alphatec Spine with the rights to market and sell ETEX s EquivaBone and CarriGen products in the U.S and Europe, excluding Spain. The financial terms of the ETEX Agreement include: (i) minimum purchase commitments during the first, second and third year following execution of the agreement of $2.3 million, $3.4 million and $4.5 million, respectively.

Agreements with Scient x S.A.

In April 2008, the Company and Scient x mutually agreed to terminate the license agreements they had entered into in January 2007. The terms of the termination agreement included a repayment of the initial $2.6 million license fee originally paid to Scient x and a full repayment of saleable inventory that the Company returned to Scient x. In December 2008, the parties amended the termination agreement to reduce the amount repaid by Scient x to $2.2 million. The Company reversed $0.4 million in previously recognized amortization expense. The Company received $2.2 million in payments and wrote off the remaining difference of $0.4 million to cost of revenues.

J3G Spine License Agreement

In August 2008, the Company entered into a development consulting agreement, or the J3G Development Consulting Agreement, with J3G Spine, LLC (J3G), that J3G is obligated to develop a neuromonitoring system to be used with its products. The financial terms of the J3G Development Consulting Agreement include: (i) a $0.3 million cash payment; (ii) design, regulatory, market launch and sales milestones; and (iii) a royalty payment based upon gross margin of licensed products. The Company recorded an IPR&D charge of $0.3 million in the third quarter of 2008 for the initial payment, as the technological feasibility associated with the IPR&D since the final prototype of the device had not been established and no future alternative use exists. In addition, the agreement includes milestone payments of $0.2 million upon the completion of proof of concept and intellectual property milestones. This agreement was terminated in the fourth quarter of 2009.

6. Debt

Line of Credit and Equipment Notes with GECC

In October 2007, the Company, Alphatec Spine, and Nexmed, Inc. (collectively, the Borrowers) had entered into a three year credit agreement with Merrill Lynch Business Financial Services, Inc. that provided for an aggregate $20.0 million commitment. The agreement consisted of a $20.0 million note bearing interest at the rate of LIBOR plus 2.75% per annum. The amount available to be drawn under the note was limited to 85% of the net collectible value of eligible accounts receivable plus 75% of eligible inventory. The note was collateralized by a pledge of substantially all current existing and after-acquired property of the Borrowers. In the first quarter of 2008, the rights and obligations of the agreement were acquired by General Electric Capital Corporation (GECC). The line of credit was paid off in full in December 2008 with the proceeds from the credit facility described below under Loan and Security Agreement.

During 2006, Alphatec Spine entered into term loans with GECC for approximately $3.7 million in order to finance certain previously purchased machinery and office equipment. The loans were for a term of three years bearing interest from 10.55% to 11.42%, were collateralized by certain assets of Alphatec Spine, were not to be prepaid without the consent of the lender and were guaranteed by the Company. Under the terms of these loans, Alphatec Spine was required to make 36 equal monthly principal and interest payments of $0.1 million and was

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subject to certain covenants. As of December 31, 2007, the Company had approximately $2.2 million outstanding under these equipment notes. The equipment notes were paid off in full in December 2008 with the proceeds from the credit facility described below.

Loan and Security Agreement

In December 2008, the Company entered into the Credit Facility with the Lenders consisting of a $15.0 million term loan and a $15.0 million working capital line of credit. The term loan carries a fixed interest rate of 11.25% with interest payments due monthly and principal repayments commencing in November 2009. Thereafter, the Company is required to repay the principal plus interest in 30 equal monthly installments, ending in April 2012. An additional finance charge of $0.8 million is due in April 2012. The finance charge is being accrued to interest expense through April 2012. The Company will pay a prepayment penalty if the loan is repaid prior to maturity. The Company does not currently anticipate repaying the debt early.

The working capital line of credit carries an interest rate equal to the prime rate plus either 2.5% or 2.0%, depending on the Company s financial performance. Interest-only payments are due monthly and the principal is due at maturity in April 2012. As of December 31, 2009 the Company has $0.3 million remaining available to be drawn under the working capital line of credit.

The funds from the credit facility were used to pay off the Company s then existing line of credit of $12.8 million and equipment notes of approximately $0.9 million, both of which were due to GECC, and is intended to serve as a source of capital for ongoing operations and working capital needs. In connection with the termination of the GECC credit agreement, the Company also paid an early termination fee of $0.4 million. The Company received net proceeds from the Lenders of $12.0 million after the repayment of amounts due to GECC, less debt issuance costs of approximately $0.5 million and other transaction fees. Included in the debt issuance costs was an upfront fee of $0.3 million paid to the Lenders. The debt issuance costs were capitalized and are being amortized over the term of the loan using the effective interest method.

In connection with this Credit Facility, the Company issued warrants to the Lenders to purchase an aggregate of 476,190 shares of the Company s common stock. The warrants are immediately exercisable, can be exercised through a cashless exercise, have an exercise price of $1.89 per share and have a ten year term. The Company recorded the value of the warrants of $0.9 million as a debt discount. The value of the warrants was determined on the date of grant using the Black-Scholes valuation method with the following assumptions: risk free interest rate of 2.67%, volatility of 60.9%, a ten year term and no dividend yield. In September 2009, one of the Lenders exercised all of its warrants pursuant to the cashless exercise provision of its agreement. See Note 9 for further discussion.

To secure the repayment of any amounts borrowed under this Credit Facility, the Company granted to the Lenders a first priority security interest in all of its assets, other than its owned and licensed intellectual property assets. The Company also agreed not to pledge or otherwise encumber its intellectual property assets without the consent of the Lenders.

The Company is also required to maintain compliance with financial covenants that include a minimum level of revenues and a minimum level of adjusted EBITDA (a non-GAAP term defined as net income (loss) excluding the effects of interest, taxes, depreciation, amortization, stock-based compensation and other non-recurring income or expense items). As of December 31, 2009, the Company was in compliance with the financial covenants set forth in the Credit Facility.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Lenders have the right to declare the loan immediately due and payable in an event of default under the Credit Facility, which includes, among other things, the failure to make payments when due, breaches of representations, warranties or covenants, the occurrence of certain insolvency events, the occurrence of a non-appealable legal judgment against the Company that is not satisfied within ten days, or the occurrence of an event which, in the opinion of the Lenders, could have a material adverse effect on the Company.

During the year ended December 31, 2009, the Company repaid $2.5 million and drew an additional $5.8 million on the working capital line of credit. The balance of the line of credit as of December 31, 2009 was $14.7 million. The balance on the term loan was $13.7 million, net of the debt discount. Amortization of the debt discount and debt issuance costs and accretion of the additional finance charge, which are recorded as a non-cash interest expense, totaled $0.9 million for the year ended December 31, 2009. Interest expense for the Credit Facility, excluding debt discount and debt issuance cost amortization and accretion of the additional finance charge, totaled $2.6 million for the year ended December 31, 2009.

Other Debt Agreements

Alphatec Pacific had a $2.7 million credit facility with Resona Bank, a Japanese bank. Under the terms of the credit facility, borrowings are due nine months from the date of borrowing and bear interest at 3.5%, and Alphatec Pacific is required to make monthly interest payments. The credit facility was secured by restricted cash of $2.0 million at December 31, 2007 and standby letters of credit issued through Bank of the West, which expired on October 31, 2007. In October 2007, Alphatec Pacific paid down $0.2 million of this credit facility and the Bank of the West standby letters of credit were replaced by letters of credit in the amount of $2.5 million issued through Merrill Lynch. In January 2008, Alphatec Pacific decided not to renew one of their lines of credit, which resulted in Alphatec Spine paying the Resona Bank $1.9 million. The second line of credit was renewed for $0.8 million. In September 2008, Alphatec Pacific paid $0.8 million on its Resona Bank line of credit and replaced the line of credit with $0.6 million term debt with Resona Bank, which is payable over 30 months with a 3.75% interest rate.

Alphatec Pacific has additional notes payable to Japanese banks and a bond payable, bearing interest at rates ranging from 1.5% to 6.5% and maturity dates through January 2014 that are collateralized by substantially all of the assets of Alphatec Pacific and Japan Ortho Medical, a subsidiary of Alphatec Pacific. As of December 31, 2009, the balance of the notes and the bond totaled $1.1 million.

The Company has various capital lease arrangements. The leases bear interest at rates ranging from 4.5% to 7.4%, are generally due in monthly principal and interest installments, are collateralized by the related equipment, and have various maturity dates through January 2014. As of December 31, 2009, the balance of these capital leases totaled $0.1 million.

The Company has a note payable with Microsoft, Inc. for the purchase of software licenses, bearing interest at a rate of 2.7% and a maturity date of February 2011. The balance of this note as of December 31, 2009 was $0.2 million.

During 2009, the Company executed financing agreements totaling $1.0 million for the payment of premiums on various insurance policies as the terms were expiring on each of the prior policies. These financing arrangements bear interest ranging from 0.0% to 5.2% and are payable from February 2010 through June 2010. The balance of all such financing agreements as of December 31, 2009 totaled $0.6 million.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has various other note payable and capital lease obligations as described in the table below.

Long-term debt consists of the following (in thousands):

	December 31,	
	2009	2008
Line of credit	$ 14,735	$ 11,500
Term loan	13,657	14,151
Notes payable to Japanese banks	892	1,588
Capital leases (See Note 7)	94	341
Bond payable to a Japanese bank	218	304
Note payable related to software license purchase	191	394
Financing agreements for premiums on insurance policies	568	319
Total debt	30,355	28,597
Less: current portion	(6,724)	(2,109)
Total long-term debt	$ 23,631	$ 26,488

Principal payments on debt are as follows as of December 31, 2009 (in thousands):

Year Ending December 31,	
2010	$ 6,996
2011	6,575
2012	17,854
2013	50
2014	4
Thereafter	
Total	31,479
Less: additional finance charge being accrued to interest expense through April 2012, and debt discount	(1,218)
Add: capital lease principal payments	94
Total	30,355
Less: current portion of long-term debt	(6,724)
Long-term debt, net of current portion	$ 23,631

7. Commitments and Contingencies

Leases

During the first quarter of 2008, the Company entered into a lease agreement and sublease agreement in order to consolidate the use and occupation of its five existing premises into two adjacent facilities, as described below. The Company also leases certain equipment and vehicles under operating leases which expire on various dates through 2014, and certain equipment under capital leases which expire on various dates

through 2010.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In February 2008, the Company entered into a sublease agreement (the Sublease), for 76,693 square feet of office, engineering, and research and development space. The Sublease term commenced May 2008 and ends on January 31, 2016. The Company is obligated under the Sublease to pay base rent and certain operating costs and taxes for the building. Monthly base rent payable by the Company was approximately $80,500 during the first year of the Sublease, increasing annually at a fixed annual rate of 2.5% to approximately $93,500 per month in the final year of the Sublease. The Company s rent was abated for months one through seven of the Sublease. At the sublease inception, the Company paid a security deposit in the amount of approximately $93,500. The Company consolidated all corporate, marketing, finance, administrative, and research and development activities into this building in May 2008.

In March 2008, the Company entered into a lease agreement (the Lease) for 73,480 square feet of office, engineering, research and development and warehouse and distribution space. The Lease term commenced on December 1, 2008 and ends on January 31, 2017. The Company is obligated under the Lease to pay base rent and certain operating costs and taxes for the building. The monthly base rent payable by the Company was approximately $73,500 during the first year of the Lease, increasing annually at a fixed annual rate of 3.0% to approximately $93,000 per month in the final year of the Lease. The Company s rent was abated for the months two through eight of the term of the Lease in the amount of $38,480. At the lease inception, the Company paid a security deposit in the amount of approximately $293,200 consisting of cash and two letters of credit. Following the Company s achievement of certain financial milestones, the lessor is obligated to return a portion of the security deposit to the Company. The lessor provided a tenant improvement allowance of $1.1 million to assist with the configuration of the facility to meet the Company s business needs. The Company consolidated all manufacturing, distribution and warehousing activities into this building in April 2009.

Future minimum annual lease payments under the Company s operating and capital leases are as follows (in thousands):

Year ending December 31,	Operating	Capital
2010	$ 2,831	$ 35
2011	2,491	23
2012	2,172	22
2013	2,146	22
2014	2,138	1
Thereafter	3,473	
	$ 15,251	103
Less: amount representing interest		(9)
Present value of minimum lease payments		94
Current portion of capital leases		(31)
Capital leases, less current portion		$ 63

Rent expense under operating leases for the years ended December 31, 2009, 2008, and 2007 was $2.4 million, $2.4 million and $1.4 million, respectively.

Litigation

On April 12, 2006, Alphatec Spine and HealthpointCapital, L.P. , the Company s majority stockholder, and its affiliate, HealthpointCapital, LLC, were served with a complaint by Drs. Darryl Brodke, Alan Hilibrand, Richard Ozuna and Jeffrey Wang, or the claimant surgeons, in the Superior Court of California in the County of Orange, claiming, among other things, that, pursuant to certain contractual arrangements Alphatec Spine

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

allegedly entered into with the claimant surgeons in 2001, it was required to pay the claimant surgeons quarterly royalties in an aggregate amount of 6% of the net sales of polyaxial screws (as defined in the alleged contractual arrangement), which the claimant surgeons allege were developed with their assistance prior to the cessation of such development activities in March 2002. In August 2009, prior to going to trial on the claims that had not been dismissed, the Company, HealthpointCapital, LLC and all of the claimant surgeons settled all matters related to this litigation. Under the settlement, all lawsuits involving the parties that were related to this matter were dismissed with prejudice. The financial terms of the settlement are as follows: (i) a cash payment of $1.5 million; (ii) the issuance of $0.5 million of shares of the Company s common stock described below; and (iii) a quarterly royalty of 1.5% on net sales of certain products through May 15, 2012, with a guaranteed minimum payment of $150,000 per quarter. In exchange, the Company received rights to all intellectual property related to the development work performed by the claimant surgeons.

The Company calculated the relative fair values of past and future royalties and applied the average fair value royalty rate to the settlement amount. The Company recorded an intellectual property intangible asset of $1.0 million for the fair value of the future license right. The value of the intellectual property is the benefit derived from the perpetual right to exploit such intellectual property in connection with the development, marketing and sale of products, calculated using the estimated discounted cash flows and future revenue projections. The Company utilized a discount rate of 13% when preparing this model. This intangible asset is being amortized on a straight-line basis over the estimated useful lives of the products of five years. In addition to recording the intellectual property intangible asset, the Company reduced its previously recorded reserve for litigation costs of $2.2 million and recorded a reduction to litigation expense of $1.2 million, a reduction to cash of $1.5 million when the payment was made and $0.5 million to common stock and additional paid in capital for the stock issuance.

On August 31, 2009, pursuant to the settlement documents, the Company issued 114,766 shares of its common stock at a price per share of $4.35. The resale of such shares has not been covered by a registration statement. Six months after the issuance, the value of such stock ($0.5 million) will be measured against the then-current value of the Company s common stock on such date. If there is a negative variance, additional shares will be issued to ensure that the value of all shares on the six-month anniversary date equals $0.5 million. If there is a positive variance, then shares will be forfeited to ensure that the value of all shares on such six-month anniversary date equals $0.5 million. The Company reviews the fair value of the $0.5 million equity issuance on a quarterly basis to determine if additional accounting is warranted. As of December 31, 2009, the Company recorded a fair value adjustment of $0.1 million as a reduction to litigation expense.

The Company is and may become involved in various other legal proceedings arising from its business activities. While management does not believe the ultimate disposition of these matters to have a material adverse impact on the Company s consolidated results of operations, cash flows or financial position; litigation is inherently unpredictable, and depending on the nature and timing of these proceedings, an unfavorable resolution could materially affect the Company s future consolidated results of operations, cash flows or financial position in a particular period.

Alphatec Pacific Put Right

In August 2005, Alphatec Spine entered into a stock purchase agreement with Roy Yoshimi, then Alphatec Pacific s Chairman, President and Chief Executive Officer, pursuant to which Alphatec Spine had an obligation to repurchase the shares of Alphatec Pacific owned by Mr. Yoshimi upon certain conditions, or upon the election of Mr. Yoshimi at any time following the first anniversary of the Company s initial public offering. Mr. Yoshimi exercised this right on June 2, 2007 and the Company s Board of Directors elected to pay the purchase price of

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$2.9 million for such Alphatec Pacific shares in the form of 804,874 shares of the Company s common stock in accordance with the stock purchase agreement governing such transaction.

The value of the put right at any reporting date is remeasured at the amount of cash that would be paid under the terms of the agreement as if the settlement occurred on that reporting date and recognizes the amount of the change from the previous reporting date as interest cost. In addition to the interest cost recorded for the change in the value of the put right, the Company consolidates 100% of Alphatec Pacific s operations. Interest income (expense) relating to the put right for the years ended December 31, 2009, 2008 and 2007 was $0, $0 and $0.1 million, respectively.

Royalties

The Company has entered into various intellectual property agreements requiring the payment of royalties based on the sale of products that utilize such intellectual property. These royalties primarily relate to products sold by Alphatec Spine and are calculated either as a percentage of net sales or in one instance on a per-unit sold basis. Royalties are included on the accompanying consolidated statement of operations as a component of cost of revenues.

Severance Obligations

In the fourth quarter of 2006, the Company reorganized its executive management. In 2007, the Company made cash payments of $1.1 million and reversed $2.0 million and $0.5 million in severance expense and stock compensation expense, respectively, due to a settlement that was reached with certain executives. These expenses had previously been recorded in 2006.

The Company has employment agreements with key executives that provide for the continuation of salary if terminated for reasons other than for cause, as defined in these agreements. At December 31, 2009 and 2008, future commitments for key executives who have terminated totaled $0 and $0.2 million, respectively.

8. Redeemable Convertible Preferred and Rolling Common Stock and Stockholders Equity

Initial Capitalization

In March 2005, the Company was capitalized through the sale of preferred stock units, consisting of shares of preferred stock and common stock, and the sale of Rolling common stock. The immediate redemption value of the preferred shares was equal to the unit price of the preferred stock unit and accordingly, none of the proceeds were allocated to the shares of common stock. During the fourth quarter of 2005 and the first quarter of 2006, the Company sold 138,345 shares of Series C common stock at $33.33 per share, resulting in $4.6 million of net proceeds.

Initial Public Offering, Redemption of Securities and Redeemable Preferred Stock

In June 2006, the Company raised aggregate gross proceeds of approximately $83.7 million by selling 9.3 million shares of common stock at a per share price of $9.00 in the Company s initial public offering (the IPO). Of this amount, the Company paid approximately $5.9 million in underwriting fees and commissions, and approximately $7.6 million for offering-related costs. This resulted in aggregate net proceeds of $70.2 million. Offering costs included $1.0 million for advisory fees, and $0.1 million of out-of-pocket costs which were incurred, by HealthpointCapital, LLC, an affiliate of HealthpointCapital. Simultaneously with the closing of the IPO, the existing classes of common stock were also converted into a single class of common stock and all of

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company s redeemable convertible preferred stock was redeemed for a combination of $35.2 million of cash, 3.3 million shares of redeemable preferred stock recorded at estimated fair value of $23.7 million and 3.9 million of new shares of common stock valued at $44.2 million. As of December 31, 2009, the redeemable preferred stock carrying value was $23.6 million and there were 20 million shares of redeemable preferred stock authorized. The redeemable preferred stock is not convertible into common stock but is redeemable at $9.00 per share, (i) upon the Company s liquidation, dissolution or winding up, or the occurrence of certain mergers, consolidations or sales of all or substantially all of the Company s assets, before any payment to the holders of the Company s common stock, or (ii) at the Company s option at any time. Holders of redeemable preferred stock are generally not entitled to vote on matters submitted to the stockholders, except with respect to certain matters that will affect them adversely as class, and are not entitled to receive dividends. The carrying value of the redeemable preferred stock was $7.11 per share at December 31, 2009 and 2008.

In September 2007, the Company received $32.2 million in net proceeds from an underwritten public offering of 10 million shares of common stock pursuant to the Company s outstanding shelf registration statement on Form S-3 (Registration No. 333-145614). The Company paid $1.9 million in underwriting fees and commissions and $0.4 million for offering-related costs.

The redeemable preferred stock is required to be shown in the Company s financial statements separate from stockholders equity and any adjustments to its carrying value to its redemption value up to its redemption value of $9.00 per share will be reported as a dividend.

Private Placement

In June 2009, the Company entered into a subscription agreement with one of its existing shareholders, HealthpointCapital Partners II, LP. The Company sold 3,937,007 shares of its common stock at a price of $2.54 per share in a private placement (the Placement) for an aggregate purchase price of approximately $10.0 million. The Company paid approximately $0.1 million for transaction fees related to the Placement and received aggregate net proceeds of approximately $9.9 million. The Company recorded the transaction fees as a reduction to additional paid in capital.

9. Stock Benefit Plans and Stock-Based Compensation

In 2005, the Company adopted its 2005 Employee, Director, and Consultant Stock Plan (the 2005 Plan). The 2005 Plan allows for the grant of options and restricted stock awards to employees, directors, and consultants of the Company. The 2005 Plan has 6,400,000 shares of common stock reserved for issuance. The Board of Directors determines the terms of the restricted stock and the term of each option, option price, number of shares for which each option is granted, whether restrictions will be imposed on the shares subject to options, and the rate at which each option is exercisable. Options granted under the 2005 Plan expire no later than 10 years from the date of grant (five years for incentive stock options granted to holders of more than 10% of the Company s voting stock). Options generally vest over a four or five year period and may be immediately exercisable upon a change of control of the Company. The exercise price of incentive stock options may not be less than 100% of the fair value of the Company s common stock on the date of grant. The exercise price of any option granted to a 10% stockholder may be no less than 110% of the fair value of the Company s common stock on the date of grant. At December 31, 2009, approximately 1,486,000 shares of common stock remained available for issuance under the 2005 Plan.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options

A summary of the Company s stock option activity under the 2005 Plan and related information is as follows (in thousands, except as indicated and per share data):

	Shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at December 31, 2008	2,265	$ 4.23	8.92	$ 97
Granted	974	$ 3.29		
Exercised	(16)	$ 2.34		
Forfeited	(266)	$ 4.14		
Outstanding at December 31, 2009	2,957	$ 3.94	8.28	$ 4,120
Options vested and exercisable at December 31, 2009	2,396	$ 3.95	8.24	$ 3,323
Options vested and expected to vest at December 31, 2009	770	$ 4.09	7.66	$ 971

The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2009, 2008 and 2007 was $3.29, $4.54 and $3.92, respectively. The aggregate intrinsic value of options at December 31, 2009 is based on the Company s closing stock price on that date of $5.34 per share.

As of December 31, 2009, there was $3.8 million of unrecognized compensation expense for stock options and awards which is expected to be recognized on a straight-line basis over a weighted average period of approximately 2.7 years. The total intrinsic value of options exercised was immaterial for the years ended December 31, 2009, 2008 and 2007.

Restricted Stock Awards

The following table summarizes information about the restricted stock awards activity (in thousands, except as indicated and per share data):

	Shares	Weighted average grant date fair value	Weighted average remaining recognition period (in years)	Aggregate intrinsic value
Outstanding at December 31, 2008	882	$ 6.40	2.19	$ 5,645
Awarded	10	$ 3.81		
Released	(351)	$ 6.86		
Forfeited	(21)	$ 9.76		
Outstanding at December 31, 2009	520	$ 5.90	1.29	$ 3,068

The table above does not include the 101,944 shares of restricted stock granted to Stout in March 2008. The weighted average fair value per share of awards granted during the years ended December 31, 2009, 2008 and 2007 was $3.81, $4.93 and $3.73, respectively.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Warrants

In December 2008, the Company issued warrants to the Lenders in the Credit Facility to purchase an aggregate of 476,190 shares of the Company s common stock with an exercise price of $1.89 per share. The warrants are immediately exercisable, can be exercised through a cashless exercise and have a ten-year term. The Company recorded the value of the warrants of $0.9 million as a debt discount. The value of the warrants was determined on the grant date using the Black-Scholes valuation method with the following assumptions: risk free interest rates of 2.67%, volatility of 60.9%, a ten year term and no dividends yield.

In September 2009, one of the Lenders to the Credit Facility exercised all of its warrants pursuant to the cashless exercise provision of its warrant agreement resulting in the Company issuing 113,388 shares of its common stock to the Lender. The net value of the shares issued was $530,000. Following this exercise, warrants to purchase 285,714 shares of common stock were outstanding as of December 31, 2009.

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following (in thousands):

	December 31, 2009
Stock options outstanding	2,957
Awards outstanding	520
Warrants outstanding	286
Authorized for future grant under 2005 Plan	1,486
	5,249

10. Income Taxes

The components of the provision for income taxes are presented in the following table (in thousands):

	Year Ended December 31,		
	2009	2008	2007
Current:			
Federal	$	$	$ 77
State	(34)	110	150
Foreign	136	225	310
Total current provision	102	335	537
Deferred:			
Federal	116	116	116
State	25	25	25
Foreign		(8)	(88)
Total deferred provision	141	133	53

Total provision	$ 243	$ 468	$ 590

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences:

	December 31, 2009	2008
Federal statutory rate	(35.0)%	(35.0)%
Adjustments for tax effects of:		
State taxes, net	(3.0)%	(4.3)%
Stock-based compensation	5.2%	2.3%
Foreign tax	2.9%	0.2%
Tax credits	(1.7)%	(1.2)%
Other	(8.9)%	1.8%
Valuation allowance	42.4%	37.8%
	1.9%	1.6%

Significant components of the Company s deferred tax assets and liabilities as of December 31, 2009 and 2008 are as follows (in thousands):

	December 31, 2009	2008
Deferred tax assets:		
Allowances and reserves	$ 63	$ 251
Accrued expenses	2,437	3,898
Inventory reserves	4,808	3,920
Net operating loss carryforwards	17,564	17,364
Property and equipment	968	159
Stock-based compensation	661	257
Intangible assets	3,134	
Income tax credit carryforwards	580	336
	30,215	26,185
Valuation allowance	(30,215)	(24,688)
Total deferred tax assets, net of valuation allowance		1,497
Deferred tax liabilities:		
Intangible assets		1,497
Goodwill	610	469
Total deferred tax liabilities	610	1,966
Net deferred tax liabilities	$ (610)	$ (469)

The realization of deferred tax assets may be dependent on the Company s ability to generate sufficient income in future years. As of December 31, 2009, a valuation allowance of $30.2 million has been established against the net deferred tax assets as realization is uncertain. Deferred tax liabilities associated with tax deductible goodwill cannot be considered a source of taxable income to support the realization of

deferred tax assets because the reversal of these deferred tax liabilities is considered indefinite.

At December 31, 2009, the Company has unrecognized tax benefits of $2.1 million of which $1.8 million will affect the effective tax rate if recognized when the Company no longer has a valuation allowance offsetting its deferred tax assets.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the changes to unrecognized tax benefits for the years ended December 31, 2009, 2008 and 2007 (in thousands):

Balance at January 1, 2007	$ 1,017
Additions based on tax positions related to the current year	504
Additions based on tax positions of prior years	53
Balance at December 31, 2007	1,574
Additions based on tax positions related to the current year	399
Reductions as a result of lapse of applicable statute of limitations	(53)
Balance at December 31, 2008	1,920
Additions based on tax positions related to the current year	305
Reductions as a result of tax positions taken	(34)
Reductions as a result of lapse of applicable statute of limitations	(75)
Balance at December 31, 2009	$ 2,116

The Company believes it is reasonably possible it will reduce its unrecognized tax benefits by approximately $0.1 million within the next 12 months.

The Company and its subsidiaries are subject to federal income tax as well as income tax of multiple state and foreign jurisdictions. With few exceptions, the Company is no longer subject to income tax examination by tax authorities in major jurisdictions for years prior to 2004. However, to the extent allowed by law, the taxing authorities may have the right to examine prior periods where NOLs and tax credits were generated and carried forward, and make adjustments up to the amount of the carryforwards. The Company is not currently under examination by the IRS, state and local, or foreign taxing authorities.

The Company has elected to recognize potential accrued interest and penalties related to unrecognized tax benefits as income tax expense. During the year ended December 31, 2009, there were no significant changes in the accrued interest and penalties and at December 31, 2009, the Company has accrued interest and penalties associated with uncertain tax positions of $0.1 million.

At December 31, 2009, the Company had federal and state net operating loss carryforwards of $42.3 million and $40.3 million, respectively, expiring at various dates through 2029. At December 31, 2009, the Company had federal and state research and development tax credits of $1.1 million and $1.1 million, respectively. The federal research and development tax credits expire at various dates through 2029, while the state credits do not expire. The Company had foreign net operating loss carryforwards of $2.5 million which begin to expire in 2014. Utilization of the net operating loss and tax credit carryforwards may be subject to substantial annual limitations due to ownership change limitations that could occur in the future as provided by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state and foreign provisions. These ownership changes may limit the amount of the net operating loss and tax credit carryforwards that can be utilized annually to offset future taxable income. An ownership change occurred during June 2006 in connection with the Company s initial public offering. The annual limitation as a result of that ownership change did not result in the loss or substantial limitation of net operating loss or tax credit carryforwards. There have been no subsequent ownership changes through December 31, 2009.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Segment and Geographical 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. The Company operates in one reportable business segment.

During the year ended December 31, 2009, the Company operated in three geographic locations, the U.S., Asia and Europe. During the years ended December 31, 2008 and 2007, the Company operated in two geographic locations, the U.S. and Asia. The Company commenced sales in Europe in the second half of 2008. Revenues, attributed to the geographic location of the customer, were as follows (in thousands):

	Year Ended December 31,		
	2009	2008	2007
United States	$ 104,531	$ 81,456	$ 66,722
Asia	23,524	17,731	13,309
Europe	4,101	2,126	
Total consolidated revenues	$ 132,156	$ 101,313	$ 80,031

Total assets by region were as follows (in thousands):

	December 31,	
	2009	2008
United States	$ 148,735	$ 141,658
Asia	13,082	13,890
Europe	71	
Total consolidated assets	$ 161,888	$ 155,548

12. Related Party Transactions

For the year ended December 31, 2009, 2008 and 2007, the Company incurred costs of $0.2 million, $0 and $0.4 million respectively, to Foster Management Company and HealthpointCapital, LLC for travel expenses, including the use of Foster Management Company s airplane. Foster Management Company is an entity owned by John H. Foster, a member of the Company s board of directors. John H. Foster is a significant equity holder of HealthpointCapital, LLC, an affiliate of HealthpointCapital Partners, L.P., the Company s principal stockholder. As of December 31, 2009, HealthpointCapital owns approximately 38.1% of the Company s outstanding common stock.

For the year ended December 31, 2009, the Company incurred costs of $0.2 million for legal services paid on behalf of HealthpointCapital in connection with the Brodke litigation.

In June 2009, the Company entered into a subscription agreement with HealthpointCapital Partners II, L.P. The Company sold 3,937,007 shares of its common stock at a price of $2.54 per share in a private placement for an aggregate purchase price of approximately $10.0 million. The Company paid approximately $0.1 million for transaction fees and received aggregate net proceeds of approximately $9.9 million.

In April 2008, Alphatec Spine and Scient x mutually agreed to terminate the license agreements between the two companies. The Company s majority shareholder, HealthpointCapital, owns a majority interest in Scient x.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, members of the Company s Board of Directors Mortimer Berkowitz III, John H. Foster and R. Ian Molson are members of the Board of Directors or otherwise affiliates of Scient x. The terms of the termination agreement included a repayment of the initial $2.6 million license fee originally paid to Scient x and a full repayment of saleable inventory that the Company returned to Scient x. In December 2008 the parties amended the agreement to reduce the amount to be repaid by Scient x to $2.2 million. The Company reversed $0.4 million in previously recognized amortization expense. The Company received $2.2 million in payments and wrote off the remaining difference of $0.4 million to cost of revenues.

In connection with the Company s September 2007 public offering of 10,000,000 shares of common stock, the Company sold 2,750,000 shares of common stock to HealthpointCapital Partners II, L.P. at a price $3.45 per share.

In August 2005, Alphatec Spine entered into a stock purchase agreement with Roy Yoshimi pursuant to which Alphatec Spine had an obligation to repurchase the shares of Alphatec Pacific owned by Mr. Yoshimi upon certain conditions, or upon the election of Mr. Yoshimi at any time following the first anniversary of the Company s initial public offering. Mr. Yoshimi exercised this right on June 2, 2007 and the Company s Board of Directors elected to pay the purchase price of $2.9 million for such Alphatec Pacific shares in the form of 804,874 shares of the Company s common stock in accordance with the stock purchase agreement governing such transaction.

Dr. Stephen J. Hochschuler serves as a director of the Company s and Alphatec Spine s Board of Directors and Chairman of Alphatec Spine s Scientific Advisory Board. The Company, Alphatec Spine and Dr. Hochschuler entered a written consulting agreement on October 13, 2006 (the Consulting Agreement). Pursuant to the Consulting Agreement, Dr. Hochschuler is required to provide advisory services related to the spinal implant industry and the Company s research and development strategies. For the years ended December 31, 2009, 2008 and 2007, the Company incurred costs of $0.2 million, $0.3 million and $0.3 million, respectively, for advisory services provided by Dr. Hochschuler.

During 2008, Alphatec Pacific, Inc. sold property to a Director of Alphatec Pacific, Inc. The sale was transacted at a third-party appraised price of $0.3 million. A loss of $0.1 million was recorded by the Company on the sale.

In November 2009, the Company purchased real property in Connecticut from one of its Vice Presidents. The purchase was transacted at a third-party appraised price of $0.4 million. The Company subsequently engaged a real-estate firm to manage and sell the property. The Company incurred expenses related to the sale of the property of $0.1 million.

13. Restructuring

Relocation of Biologics Distribution Center

In the second quarter of 2007, the Company announced the relocation of its Massachusetts biologics distribution center to Carlsbad, California, the location of the Company s corporate headquarters. The Company completed the relocation in the fourth quarter of 2007. During 2007, the Company recorded $0.5 million for contract termination expenses.

Cost Reduction Plan

For the years ending December 31, 2008 and 2007, the Company initiated reductions in the work force and recorded severance expense of $0.4 million each year.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Retirement Plan

The Company maintains an employee savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the savings plan, participating employees may contribute a portion of their pre-tax earnings, up to the Internal Revenue Service annual contribution limit. Additionally, the Company may elect to make matching contributions into the savings plan at its sole discretion of up to 4% of each individual s compensation. Match amounts are vested after one year of service. The Company s total contributions to the 401(k) plan were $0.3 million, $0.7 million and $0.6 million for the years ended December 31, 2009, 2008 and 2007, respectively.

15. Subsequent Events

Agreement to Acquire Scient x

On December 17, 2009, the Company entered into an acquisition agreement to acquire all of the shares of Scient x, a medical device company based in Guyancourt, France, that designs, develops and manufactures surgical implants to treat disorders of the spine. The Company has targeted the purchase of Scient x to acquire its product portfolio and technology and its international distribution network and existing customer base and because of the increased scale of the combined entities. The transaction is structured as an all stock transaction such that 100% of outstanding Scient x stock will be exchanged pursuant to a fixed ratio for 24,000,000 shares of the Company s common stock. The acquisition will be accounted for under the acquisition method of accounting and is expected to close by the end of the first quarter of 2010.

Through December 31, 2009, the Company had incurred transaction costs relating to the acquisition of approximately $2.6 million. These costs have been included in general and administrative expense in the consolidated statement of operations.

Shares Reserved for Issuance

In January 2010, the Company s Board of Directors agreed to increase the number of shares reserved for issuance under the 2005 Plan by 1,000,000 shares.

Distribution Agreement with Parcell Spine, LLC

In January 2010, the Company entered into an exclusive distribution agreement with Parcell Spine, LLC, (the Parcell Agreement), that provides Alphatec with an exclusive right to distribute Parcell Spine s proprietary adult stem cells for the treatment of spinal disorders. The financial terms of the Parcell Agreement include: (i) a cash payment of $0.5 million payable following the execution of the Parcell Agreement; (ii) a milestone payment consisting of $1.0 million in cash and the issuance of $1.0 million shares of the Company s common stock following the successful completion of the pre-clinical study; and (iv) sales milestone payments in cash and the Company s common stock.

Subscription Agreements for Sale of Common Stock

On February 9, 2010, the Company entered into subscription agreements with a group of purchasers for the sale of an aggregate of 1,592,011 shares of the Company s common stock at a purchase price of $4.1457 per share, for gross proceeds of approximately $6.6 million (the Offering). The net proceeds to the Company from the Offering, after deducting expenses, were approximately $6.5 million. The Offering closed on February 12, 2010.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Filing of Registration Statement

On February 12, 2010, the Company filed a registration statement on Form S-3 with the SEC to register for resale by HealthpointCapital up to an aggregate of 20,031,646 shares of the Company s common stock. In addition, under this shelf registration, the Company may offer and sell shares of its common stock and preferred stock, various series of debt securities, and warrants, either individually or in units, with a total value of up to $100,000,000 at prices and on terms to be determined by market conditions at the time of offering. As of the date of the filing of this Annual Report on Form 10-K, the registration statement has not been declared effective by the SEC.

Litigation

On February 12, 2010, a complaint was filed in the U.S. District Court for the Central District of California, by Cross Medical Products, LLC (Cross) alleging that the Company owes Cross royalty payments on sales of certain products containing polyaxial pedicle screw components. While the Company believes that the plaintiff s allegations are without merit, the outcome of the litigation cannot be predicted at this time and any outcome in favor of Cross could have a significant adverse effect on the Company s financial condition and results of operations.

16. Quarterly Financial Data (Unaudited)

The following financial information reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for fiscal 2009 and 2008 are as follows (in thousands, except per share data):

	Year ended December 31, 2009			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Selected quarterly financial data:				
Revenue	$ 30,610	$ 32,263	$ 32,677	$ 36,606
Gross profit	19,780	20,851	20,811	22,699
Total operating expenses	22,904	26,302	21,468	23,024
Net loss	(4,383)	(6,303)	(1,283)	(1,320)
Basic and diluted net loss per common share (1)	(0.09)	(0.13)	(0.02)	(0.03)

	Year ended December 31, 2008			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Selected quarterly financial data:				
Revenue	$ 23,197	$ 23,853	$ 25,816	$ 28,447
Gross profit	15,310	15,837	16,708	16,853
Total operating expenses	31,171	19,156	21,163	21,024
Net loss	(15,779)	(3,591)	(4,860)	(5,058)
Basic and diluted net loss per common share (1)	(0.34)	(0.08)	(0.10)	(0.11)

(1) Basic and diluted net loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts will not necessarily equal the total for the year.

Table of Contents

ALPHATEC HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts (1)	Reserve for Excess and Obsolete Inventories (2)
	(In thousands)	
Balance at December 31, 2006	$ 620	$ 10,314
Provision (credit)	(351)	1,175
Acquisition	5	
Write-offs and recoveries, net	(89)	(1,381)
Balance at December 31, 2007	185	10,108
Provision	330	3,068
Write-offs and recoveries, net	(182)	(2,007)
Balance at December 31, 2008	333	11,169
Provision	5	1,927
Write-offs and recoveries, net	(20)	(4,451)
Balance at December 31, 2009	$ 318	$ 8,645

(1) The provision is included in selling expenses.
(2) The provision is included in cost of revenues.