Alphatec Holdings, Inc.
Form 10-Q
November 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2011

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, CA 92008

(Address of principal executive offices, including zip code)

(760) 431-9286

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Yes x No ¨

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

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the 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 ¨ Small reporting company ¨

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

Yes ¨ No x

As of November 1, 2011, there were 89,246,590 shares of the registrant s common stock outstanding.

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ALPHATEC HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

September 30, 2011

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except for par value data)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 22,144	$ 23,168
Accounts receivable, net	39,775	39,777
Inventories, net	48,783	51,635
Prepaid expenses and other current assets	7,145	6,652
Deferred income tax assets	1,592	1,592
Total current assets	119,439	122,824
Property and equipment, net	34,322	38,440
Goodwill	173,626	170,194
Intangibles, net	41,828	43,148
Other assets	3,475	2,410
Total assets	$ 372,690	$ 377,016
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 14,987	$ 15,957
Accrued expenses	23,229	22,530
Deferred revenue	3,351	3,396
Current portion of long-term debt	2,544	1,708
Total current liabilities	44,111	43,591
Long-term debt, less current portion	28,771	32,474
Other long-term liabilities	1,826	2,153
Deferred income tax liabilities	6,910	8,761
Redeemable preferred stock, $0.0001 par value; 20,000 authorized at September 30, 2011 and December 31, 2010; 3,319 shares issued and outstanding at both September 30, 2011 and December 31, 2010	23,603	23,603
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.0001 par value; 200,000 authorized at September 30, 2011 and December 31, 2010; 89,241 and 89,040 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	9	9
Treasury stock, 19 shares	(97)	(97)
Additional paid-in capital	385,601	383,647
Accumulated other comprehensive income (loss)	3,986	(1,310)
Accumulated deficit	(122,030)	(115,815)
Total stockholders equity	267,469	266,434

Total liabilities and stockholders equity	$	372,690	$	377,016

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	$ 47,619	$ 44,846	$ 148,201	$ 125,592
Cost of revenues	17,001	15,546	54,959	43,516
Amortization of acquired intangible assets	411	373	1,223	742
Gross profit	30,207	28,927	92,019	81,334
Operating expenses:				
Research and development	3,858	3,751	13,653	12,347
In-process research and development		2,425		2,967
Sales and marketing	19,145	17,052	57,065	47,571
General and administrative	8,627	7,933	26,707	21,500
Amortization of acquired intangible assets	545	533	1,629	1,002
Transaction related expenses		6		3,651
Restructuring expenses	394	702	993	2,389
Total operating expenses	32,569	32,402	100,047	91,427
Operating loss	(2,362)	(3,475)	(8,028)	(10,093)
Other income (expense):				
Interest income	48	262	103	297
Interest expense	(725)	(1,417)	(2,292)	(3,722)
Other income, net	202	70	958	1,062
Total other income (expense)	(475)	(1,085)	(1,231)	(2,363)
Loss from continuing operations before taxes	(2,837)	(4,560)	(9,259)	(12,456)
Income tax benefit	(1,533)	(770)	(3,044)	(899)
Loss from continuing operations	(1,304)	(3,790)	(6,215)	(11,557)
Income from discontinued operations, net of tax				78
Net loss	$ (1,304)	$ (3,790)	$ (6,215)	$ (11,479)
Net loss per common share:				
Basic and diluted net loss per share from continuing operations	$ (0.01)	$ (0.04)	$ (0.07)	$ (0.15)
Basic and diluted net income per share from discontinued operations	0.00	0.00	0.00	0.00
Basic and diluted net loss per share	$ (0.01)	$ (0.04)	$ (0.07)	$ (0.15)
Weighted-average shares used in computing net loss per share:				
Basic and diluted	88,829	86,990	88,757	75,394

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating activities:		
Net loss	$ (6,215)	$ (11,479)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,939	12,451
Stock-based compensation	1,928	2,326
Interest expense related to amortization of debt discount and debt issuance costs	281	722
In-process research and development paid in stock		1,000
Provision for doubtful accounts	594	764
Provision for excess and obsolete inventory	3,365	1,839
Gain on sale of IMC Co. (discontinued operations)		(188)
Deferred income tax benefit	(2,352)	(1,101)
Changes in operating assets and liabilities:		
Accounts receivable	(1,919)	(5,145)
Inventories	(140)	(13,297)
Prepaid expenses and other current assets	474	(1,666)
Other assets	828	268
Accounts payable	995	(1,384)
Accrued expenses and other	(1,643)	888
Deferred revenues	(26)	849
Net cash provided by (used in) operating activities	11,109	(13,153)
Investing activities:		
Cash received in acquisition of Scient x		1,589
Proceeds from sale of IMC Co. (discontinued operations)		329
Cash paid for acquisition of Brazilian subsidiary	(620)	
Purchases of property and equipment	(8,033)	(11,657)
Purchase of intangible assets	(445)	(500)
Net cash used in investing activities	(9,098)	(10,239)
Financing activities:		
Exercise of stock options	104	211
Net proceeds from issuance of common stock		49,659
Borrowings under lines of credit	1,662	2,610
Repayments under lines of credit	(3,114)	(1,796)
Principal payments on capital lease obligations	(114)	(129)
Principal payments on notes payable	(1,523)	(7,273)
Net cash (used in) provided by financing activities	(2,985)	43,282
Effect of exchange rate changes on cash and cash equivalents	(50)	(1,121)
Net (decrease) increase in cash and cash equivalents	(1,024)	18,769
Cash and cash equivalents at beginning of period	23,168	10,085

Cash and cash equivalents at end of period	$	22,144	$	28,854

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(UNAUDITED)

(in thousands)

	Nine Months Ended September 30, 2011		2010	
Supplemental cash flow information:				
Cash paid for interest	$	1,828	$	2,460
Cash paid for income taxes	$	303	$	339
Purchases of property and equipment in accounts payable	$	2,241	$	3,765
Financing of software and support by third party	$	121	$	872
Financing of insurance premiums by insurance provider	$		$	406
Non-cash purchases of license agreements	$	50	$	
Issuance of common stock in connection with Scient x acquisition	$		$	151,639
Stock options issued in connection with Scient x acquisition	$		$	1,040
Non-cash exercise of warrants	$		$	540
Non-cash purchase of intangible assets	$		$	1,500
Purchase of intangible assets in accrued expenses	$		$	1,450

See accompanying notes to unaudited condensed consolidated financial statements.

ALPHATEC HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The Company and Basis of Presentation

The Company

Alphatec Holdings, Inc. (Alphatec , Alphatec Holdings or the Company), through its wholly owned subsidiary, Alphatec Spine, Inc. and its subsidiaries (Alphatec Spine), designs, develops, manufactures and markets products in the U.S. for the surgical treatment of spine disorders, primarily focused on the aging spine. In addition to its U.S. operations, the Company also markets its products in over 50 international markets through its subsidiaries, Scient x S.A.S. and its subsidiaries (Scient x), and Alphatec Pacific, Inc. and its subsidiaries (Alphatec Pacific).

The Company acquired Scient x on March 26, 2010. Subsequent to the closing of the acquisition, the Company became responsible for managing the operation of the combined entities (See Note 3).

Basis of Presentation

The condensed consolidated financial statements include the accounts of Alphatec and Alphatec Spine and its wholly owned subsidiaries. The results of operations for the nine months ended September 30, 2010 do not include the results of Scient x for the first quarter of 2010 as the Company determined that Scient x s results of operations for the five days from the acquisition date, March 26, 2010, to the fiscal quarter end were immaterial to the Company s first quarter 2010 consolidated results. All intercompany balances and transactions have been eliminated in the condensed consolidated financial statements.

In April 2010, Alphatec Pacific entered into an agreement to sell its wholly owned subsidiary, IMC Co., to a third party. (see Note 13).

The accompanying condensed consolidated balance sheet as of December 31, 2010, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared by the Company in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) related to a quarterly report on Form 10-Q. Certain information and note disclosures normally included in annual audited financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made in this quarterly report on Form 10-Q are adequate to make the information not misleading. The unaudited interim condensed consolidated financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2010, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 that was filed with the SEC on March 4, 2011.

Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, or any other future periods.

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 $22.1 million and accounts receivable of $39.8 million at September 30, 2011 will be sufficient to fund its cash requirements through at least September 30, 2012. The Company s amended credit facility (the Amended Credit Facility) with Silicon Valley Bank (SVB) contains financial covenants consisting of a minimum adjusted quick ratio and minimum quarterly free cash flow. As of September 30, 2011, the Company was not in compliance with the minimum adjusted quick ratio covenant or the minimum quarterly free cash flow covenant. In November 2011, the Company and SVB executed an agreement for a third amendment to the Amended Credit Facility (the Third Amended Credit Facility). The Third Amended Credit Facility included a waiver for non-compliance with the financial covenants for the quarterly period ended September 30, 2011 and it also restructured the Amended Credit Facility terms including future financial covenants (see Note 7).

Based on the Company s current operating plan, the Company believes that it is reasonably likely that it will be in compliance with the financial covenants of the Third Amended Credit Facility in the foreseeable future. However, there is no assurance that the Company will be able to do so. If the Company is not able to achieve its planned revenue growth or incurs costs in excess of its forecasts, it may be required to substantially reduce discretionary spending and it could be in default of the Third Amended Credit Facility. In addition to the financial covenants, the Third

Amended Credit Facility contains other covenants including subjective clauses that would allow the lender to declare the loan immediately due and payable. Upon the occurrence of a covenant violation or other event of default that is not waived, the lender could elect to declare all amounts outstanding under the Third Amended Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. If the lender were to accelerate the repayment of borrowings under the Third Amended Credit Facility for any reason, the Company may not have sufficient cash on hand to repay the amounts borrowed under the Third Amended Credit Facility and would be forced to obtain alternative financing.

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If the Company 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 may be required to attempt to seek a waiver of such covenants, renegotiate the amended credit facility, and/or substantially reduce discretionary spending, which could have a material adverse effect on the Company s ability to achieve its intended business objectives. There can be no assurances that such a waiver could be obtained, that the Third Amended Credit Facility could be successfully renegotiated or that the Company can modify its operations to maintain liquidity. If the Company is unable to obtain any required waivers or amendments, the lender would have the right to exercise remedies specified in the Third Amended Credit Facility, including accelerating the repayment of debt obligations as discussed above. The Company may be forced to seek additional financing, which may include additional debt and/or equity financing or funding through other third party agreements. There can be no assurances that additional financing will be available on acceptable terms or available at all. Furthermore, any equity financing may result in dilution to existing stockholders and any debt financing may include restrictive covenants.

2. Summary of Significant Accounting Policies

The Company s significant accounting policies are described in Note 2 to its audited consolidated financial statements for the year ended December 31, 2010, which are included in the Company s Annual Report on Form 10-K that was filed with the SEC on March 4, 2011. Except as discussed below, these accounting policies have not significantly changed during the nine months ended September 30, 2011.

Impairment Analysis for Goodwill

The Company performs its test for goodwill impairment annually during the fourth quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. During the three months ended September 30, 2011, the Company concluded that a decline in its stock price and market capitalization was an indicator of a potential impairment in goodwill. As a result, the Company performed an interim impairment test on its single operating unit.

The goodwill impairment test is a two-step process. The first step compares the Company s fair value to its net book value. If the fair value is less than the net book value, the second step of the test compares the implied fair value of the Company s goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, the Company would recognize an impairment loss equal to that excess amount.

The Company estimated the fair value in step one based on the income approach which included discounted cash flows as well as a market approach that utilized the Company s earnings and revenue multiples and recent sales transactions. The Company s discounted cash flows required management judgment with respect to forecasted sales, launch of new products, gross margin, selling, general and administrative expenses, capital expenditures and the selection and use of an appropriate discount rate. The Company utilized its weighted average cost of capital as the discount rate for the projected future cash flows and its median revenue and earnings multiples under the market approach. The Company s assessment resulted in a fair value that was greater than the Company s carrying value at September 30, 2011. In accordance with the authoritative literature, the second step of the impairment test was not required to be performed and no impairment of goodwill was recorded as of September 30, 2011.

Significant management judgment is required in the forecast of future operating results that are used in the Company s impairment analysis. The estimates the Company used are consistent with the plans and estimates that it uses to manage its business. Significant assumptions utilized in the Company s income approach model included the growth rate of sales for recently introduced products and the introduction of anticipated new products. Another important assumption involved in forecasted sales is the projected mix of higher margin U.S. based sales and lower margin non-U.S. based sales. Additionally, the Company has projected an improvement in its gross margin as a result of its forecasted mix in U.S. sales versus non-U.S. based sales and lower manufacturing cost per unit based on the increase in forecasted volume to absorb applied overhead over the next three years. Although the Company believes its underlying assumptions supporting this assessment are reasonable, if the Company s forecasted sales, mix of product sales, growth rates of recently introduced new products, timing of and growth rates of new product introductions, gross margin, selling, general and administrative expenses, or the discount rate vary from its forecasts, the Company may be required to perform a step two analysis that could expose the Company to material impairment charges in the future.

The Company will re-assess goodwill impairment when it performs its annual test for impairment in December 2011. The Company will also be required to perform additional interim analysis if its stock price and market capitalization do not increase above current levels.

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Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) amended its goodwill guidance by providing entities an option to use a qualitative approach to test goodwill for impairment. An entity will be able to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The amendment will be effective for the Company on January 1, 2012. The Company does not anticipate that this amendment will have a material impact on its financial position or results of operations.

In September 2011, the FASB issued new accounting guidance that requires total comprehensive income, the components of net income and the components of other comprehensive income to be presented either in a single continuous statement or in two separate but consecutive statements. This guidance will be effective for the Company in the fiscal year beginning January 1, 2012. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of shareholders equity. While the new guidance changes the presentation of other comprehensive income, there are no changes to the components that are recognized in other comprehensive income. Other than presentation, the adoption of this guidance will not have an impact on the Company s financial position or results of operations.

3. Acquisitions

Purchase of Scient x

On December 17, 2009, the Company entered into an acquisition agreement to acquire all of the shares of Scient x, with Scient x continuing after the acquisition as a wholly-owned subsidiary of the Company s newly formed and wholly owned Dutch subsidiary. The acquisition, which closed on March 26, 2010, is accounted for under the acquisition method of accounting. The effective acquisition date for accounting purposes was the close of business on March 31, 2010, the end of Scient x s fiscal first quarter. The Company purchased Scient x to acquire Scient x s product portfolio and technology, its international distribution network and existing customer base, and because of the increased scale of the combined entities.

The transaction was structured as an all stock transaction such that all of the outstanding stock of Scient x was exchanged, pursuant to a fixed ratio, for 24,000,000 shares of the Company s common stock. The shares to be paid by the Company at the closing were reduced to 23,730,644 shares in exchange for the Company paying certain acquisition fees and expenses incurred by HealthPointCapital Partners, L.P. and HealthPointCapital Partners II, L.P. (collectively, HealthPointCapital), the Company s and Scient x s principal stockholders.

As required by the acquisition agreement, the holders of both vested and unvested options to purchase shares of Scient x common stock who were employed by either Scient x or Alphatec on the closing date were entitled to receive replacement options to purchase shares of Alphatec common stock upon closing of the acquisition (Replacement Options), and such optionees were given credit for the vesting of their Scient x options up to the closing date. $1.0 million was included in the purchase price to represent the fair value of the Scient x options attributable to pre-combination service and was estimated using the Black-Scholes-Merton option pricing model with market assumptions. Option pricing models require the use of highly subjective market assumptions, including expected stock price volatility, which if changed can materially affect fair value estimates. The assumptions used in estimating the fair value of the Replacement Options include expected volatility of 56.0%, expected term of 6.0 years, and a risk-free interest rate of 2.5%. The difference between the total fair value of the Replacement Options and the fair value of $1.0 million attributable to pre-combination service is being recognized as compensation cost in the Company s post-combination financial statements over the requisite service period.

Based on the closing price of Alphatec s common stock of $6.39 on March 26, 2010, the fair value of the Replacement Options, and the amount payable in exchange for reduction in shares, the total purchase price was as follows (in thousands):

Fair value of Alphatec common stock issued upon closing	$ 151,639
Fair value of Scient x Replacement Options attributable to pre-combination service	1,040
Payable in exchange for reduction in shares to be paid in cash	1,618
Total purchase price	$ 154,297

Under the acquisition method of accounting, the total purchase price is allocated to Scient x s net tangible and intangible assets based on their estimated fair values at the date of the completion of the acquisition.

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The following table summarizes the allocation of the purchase price (in thousands) for Scient x and the estimated useful lives for the acquired intangible assets:

	Useful lives (in years)	Estimated Fair Value
Net tangible assets assumed		$ 2,577
Acquired intangibles:		
Core technology	10	3,632
Developed technology	8	9,552
In-process technology	Indefinite	1,749
Corporate trademarks	5	1,614
Key product trademarks	9	2,179
Customer-related intangible	15	16,009
Distribution network	10	1,614
Physician education programs	10	3,095
Goodwill		112,276
Total purchase price allocation		$ 154,297

The Company allocated $2.6 million to Scient x net tangible assets assumed and $39.4 million to identifiable intangible assets acquired. A value of $112.3 million, representing the difference between the total purchase price and the aggregate fair values assigned to the net tangible and intangible assets acquired, less liabilities assumed, was assigned to goodwill. Alphatec acquired Scient x to expand its product offerings, increase its addressable market, increase the size of its international business, and increase its revenues primarily outside of the U.S. Alphatec also believes that significant cost reduction synergies may be realized when the integration of the acquired business is complete. These are among the factors that contributed to a purchase price for the Scient x acquisition that resulted in the recognition of goodwill. The amount recorded as acquired intangibles and goodwill is not expected to be deductible for tax purposes.

The Company increased the value of inventory it acquired from Scient x to its estimated fair value (step up), which represented an amount equivalent to estimated selling prices less distribution related costs and a normative selling profit. Consistent with stock rotation, the inventory step up reversed ratably over 14 months and was included in the Company s post-combination financial statements. The increase to inventory was offset by a decrease in estimated fair value of redundant inventory based on the highest and best use of a similar market participant.

For the technology-related assets, the Company separated the acquired product families into the following three categories: core, developed, and in-process technology. The Company determined the values for each of these categories by estimating the present values of the net cash flows expected to be generated by each category of technology.

The Company separated trademarks into the following two categories: corporate trademarks and key product trademarks. The Company calculated the values of each of these trademark categories by estimating the present value of future royalty costs that would be avoided by a market participant due to ownership of the trademarks acquired.

The customer-related intangible includes hospitals and distributors that take title to Scient x s products. The Company determined the value of such customer-related intangible by estimating the present value of expected future net cash flows derived from such customers.

The distribution network includes U.S.-based distributors that sell Scient x products to customers on a consignment basis. The Company determined the value of the intangibles related to the distribution network by estimating the difference between the present values of expected future net cash flows generated with and without the distribution network in place.

The Company determined the value of physician education programs value by estimating the costs to rebuild such programs.

The fair value of the non-controlling interest as of March 26, 2010 was $0.5 million and was determined by reviewing the fair value of Scient x s Italian subsidiary s net equity and multiplying such amount by 30%, which represents the ownership interest of the non-controlling party.

Scient x is subject to legal and regulatory requirements, including but not limited to those related to taxation in each of the jurisdictions in which it operates. The Company has conducted an assessment of liabilities arising from these tax matters in each of such jurisdictions, and has recognized provisional amounts in its accounting for the acquisition of Scient x for the identified liabilities.

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The changes in the carrying amount of goodwill since the acquisition date through September 30, 2011 were as follows (in thousands):

Goodwill recorded for Scient x acquisition as of March 31, 2010	$ 112,524
Cumulative purchase price adjustments to net tangible assets	(248)
Net effect of foreign exchange rate on goodwill	1,096
Balance at September 30, 2011	$ 113,372

The following unaudited pro forma information presents the consolidated results of operations of the Company and Scient x as if the acquisition had occurred on January 1, 2010 (in thousands, except share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	$ 47,619	$ 44,846	$ 148,201	$ 136,927
Loss from operations	(1,968)	(2,767)	(7,035)	(5,209)
Net loss	(910)	(3,082)	(5,222)	(5,922)
Net loss per share, basic and diluted	$ (0.01)	$ (0.04)	$ (0.06)	$ (0.07)

The pro forma information is not necessarily indicative of what the results of operations actually would have been had the acquisition been completed on the date indicated. In addition, it does not purport to project the future operating results of the combined entity. The pro forma condensed combined financial information is presented for illustrative purposes only and does not reflect the realization of potential cost savings, revenue synergies or any restructuring costs.

For the three months ended September 30, 2011 and 2010 and the nine months ended September 30, 2011, the Company did not incur any transaction costs related to the acquisition. For the nine months ended September 30, 2010, the Company incurred transaction costs related to the acquisition of $3.7 million. These costs were expensed as incurred.

For the three months ended September 30, 2011 and 2010, the Company incurred restructuring charges related to the acquisition of $0.4 million and $0.7 million, respectively. For the nine months ended September 30, 2011 and 2010, the Company incurred restructuring charges related to the acquisition of $1.0 million and $2.4 million, respectively. These restructuring charges consist of severance payments and severance-related benefits, rent and other expenses for facilities and the cost of exiting two terminated European distributor agreements.

The amount of Scient x revenue included in the Company s condensed consolidated statement of operations for the three months ended September 30, 2011 and 2010 totaled $6.6 million and $8.2 million, respectively. The amount of Scient x net loss included in the Company s condensed consolidated statement of operations for the three months ended September 30, 2011 and 2010 totaled $(2.0) million and $(3.3) million, respectively.

In future periods, the combined business may incur charges to operations that reflect costs associated with integrating the two businesses. The Company cannot reasonably estimate such costs at this time.

Purchase of Minority Interest

During December 2010, Scient x acquired the non-controlling interest of its Italian subsidiary from the non-controlling party for $0.5 million. The fair value of the non-controlling interest as of the repurchase date was $0.5 million.

Acquisition of Cibramed

In January 2011, the Company acquired Cibramed Productos Medicos (Cibramed), a Brazilian medical device company. The Company purchased Cibramed to acquire its ANVISA regulatory registration certificates and its general licenses to conduct business in Brazil. The Company recorded an intangible asset of $0.8 million, which includes $0.2 million related to the deferred tax impact from the acquisition, for the ANVISA regulatory registration certificates and licenses it purchased to conduct business in Brazil. The Company is amortizing this asset on a straight-line basis over its estimate life of 15 years. No product distribution rights were acquired. The purchase price of $0.6 million was paid in installments consisting of (i) 60% upon execution of the acquisition agreement; (ii) 20% due 90 days from the execution of the acquisition agreement and; (iii) 20% due 180 days from the execution of the acquisition agreement. As of September 30, 2011, the Company had paid the full purchase price of $0.6 million.

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4. Select Balance Sheet Details

Inventories

Inventories consist of the following (in thousands):

	September 30, 2011			December 31, 2010		
	Gross	Reserve for excess and obsolete	Net	Gross	Reserve for excess and obsolete	Net
Raw materials	$ 3,476	$	$ 3,476	$ 3,821	$	$ 3,821
Work-in-process	2,465		2,465	2,242		2,242
Finished goods	54,832	(11,990)	42,842	56,602	(11,030)	45,572
Inventories, net	$ 60,773	$ (11,990)	$ 48,783	$ 62,665	$ (11,030)	$ 51,635

Property and Equipment

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

	Useful lives (in years)	September 30, 2011	December 31, 2010
Surgical instruments	4	$ 56,279	$ 53,155
All other property and equipment	various	23,791	22,450
		80,070	75,605
Less accumulated depreciation and amortization		(45,748)	(37,165)
Property and equipment, net		$ 34,322	$ 38,440

Total depreciation expense was $3.7 million and $3.6 million for the three months ended September 30, 2011 and 2010, respectively. Total depreciation expense was $11.1 million and $9.5 million for the nine months ended September 30, 2011 and 2010, respectively.

Intangible Assets

Intangible assets consist of the following (in thousands except as indicated):

	Useful lives (in years)	September 30, 2011	December 31, 2010
Developed product technology	5-8	$ 23,352	$ 23,030
Distribution rights	3	4,313	4,148
Intellectual property	5	1,004	1,004
License agreements	1-7	6,487	5,100
Core technology	10	3,670	3,548
In-process technology	Indefinite	1,767	1,708
Trademarks and trade names	5-9	3,827	3,722
Customer-related	15	16,160	15,792
Distribution network	10	1,614	1,614
Physician education programs	10	3,127	3,022

Supply agreement	10	225	225
		65,546	62,913
Less accumulated amortization		(23,718)	(19,765)
Intangible assets, net		$ 41,828	$ 43,148

Total amortization expense was $1.3 million and $1.0 million for the three months ended September 30, 2011 and 2010, respectively. Total amortization expense was $3.8 million and $3.0 million for the nine months ended September 30, 2011 and 2010, respectively.

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The future expected amortization expense related to intangible assets as of September 30, 2011 is as follows (in thousands):

Year Ending December 31,	
Remainder of 2011	$ 1,110
2012	4,440
2013	4,394
2014	4,291
2015	4,139
Thereafter	21,687
Total future expected amortization expense	40,061
Add: In-process technology	1,767
Total	$ 41,828

5. Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events, including foreign currency translation adjustments. The following table sets forth the computation of comprehensive income (loss) for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	**2010**	**2011**	**2010**
Net loss, as reported	$ (1,304)	$ (3,790)	$ (6,215)	$ (11,479)
Foreign currency translation adjustment	(6,980)	14,118	5,296	544
Comprehensive (loss) income	$ (8,284)	$ 10,328	$ (919)	$ (10,935)

The change in cumulative foreign currency translation adjustment primarily relates to the Company s investment in Scient x and fluctuations in exchange rates between Scient x s local currency (the Euro) and the U.S. dollar. During the three and nine months ended September 30, 2011, the change in the foreign currency translation amounts resulted from changes in the value of the Euro. The value of the Euro decreased approximately 5% relative to the U.S. dollar during the three months ended September 30, 2011 and increased approximately 9% relative to the U.S. dollar during the three months ended September 30, 2010. The value of the Euro increased approximately 3% relative to the U.S. dollar during the nine months ended September 30, 2011 and decreased approximately 6% relative to the U.S. dollar during the nine months ended September 30, 2010.

6. License and Developmental Consulting Agreements

The Company s license and developmental consulting agreements are described in Note 5 to its audited consolidated financial statements for the year ended December 31, 2010, which are included in its Annual Report on Form 10-K which was filed with the SEC on March 4, 2011. The description below is a supplement to such description in the Form 10-K.

License Agreement with Vertebration, Inc.

In March 2011, the Company entered into a License Agreement (the Vertebration Agreement) with Vertebration, Inc. (Vertebration) that provides the Company with an exclusive license to develop and commercialize Vertebration s proprietary licensed technology related to its Xycor implant and related instrumentation. The Xycor implant has received 510(k) approval for marketing by the United States Food and Drug Administration (the FDA). The financial terms of the Vertebration License Agreement include: (i) a cash payment of $0.5 million following the execution of the Vertebration License Agreement, of which $0.1 million will be credited against amounts payable to Vertebration at a future date and $0.1 million will be repaid by Vertebration in March 2014; (ii) additional cash payments totaling $0.2 million payable in 2011;

(iii) development and sales milestone payments in cash that could begin to be achieved and paid in 2012; and (iv) payments consisting of either: (a) a royalty based on net sales of licensed products or (b) a payment of percentage of the Company s gross margin, with the type of payment dependent on the manner in which the product was sold, with minimum annual payments beginning in the year after the first commercial sale of a licensed product. During the first quarter of 2011, the Company recorded an intangible asset of $0.4 million following the execution of the Vertebration License Agreement. The Company is amortizing this asset over seven years, the estimated life of the Xycor product.

7. Debt

As of September 30, 2011, the Company had an Amended Credit Facility with SVB that consisted of a working capital line of credit, which permitted the Company to borrow up to $32 million. The actual amount available is based on eligible accounts receivable and eligible inventory. The working capital line of credit carries an interest rate equal to the greater of 5.5% or the SVB prime rate plus 2.0%. Interest-only payments are due monthly and the principal is due at maturity, which occurs in October 2013. The Amended Credit Facility contains financial covenants consisting of a minimum adjusted quick ratio and minimum quarterly free cash flow. The minimum adjusted quick ratio is defined as the sum of the Company s cash held with SVB and 80% of eligible domestic accounts receivable divided by the Amended Credit Facility balance. Free cash flow is defined as 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, such as in-process research and development expense and acquisition related transaction and restructuring expenses), less capital expenditures and cash taxes.

As of September 30, 2011, the Company was not in compliance with the minimum adjusted quick ratio covenant or the minimum quarterly free cash flow covenant. In November 2011, the Company and Silicon Valley Bank executed the Third Amended Credit Facility. The Third Amended Credit Facility included a waiver for non-compliance with the minimum quarterly financial covenants for the quarterly period ended September 30, 2011 and it also restructured the credit facility terms including future financial covenants.

The Third Amended Credit Facility consists of a $10 million term loan and a working capital line of credit which permits the Company to borrow up to $22 million. The actual amount available under the line of credit is based on eligible accounts receivable and eligible inventory. The term loan carries a fixed interest rate equal to the SVB prime rate plus 4.5% with principal plus interest repayments due in 16 equal quarterly installments. A finance charge of $100,000 is waived in exchange for the issuance of warrants to SVB to purchase shares of the Company s common stock. The term loan matures October 2015 and the Company will pay a prepayment penalty if the term loan is repaid prior to maturity. The funds from the term loan were intended to refinance a portion of the line of credit under the Amended Credit Facility. The working capital line of credit carries an interest rate equal to the SVB prime rate plus 3.5%, with calculated minimum monthly interest of $116,000. Interest only payments are due monthly and the principal is due at maturity, October 2013, which is consistent with the amended credit facility. A finance charge of $50,000 is waived in exchange for the issuance of warrants to SVB to purchase shares of the Company s common stock.

Under the Third Amended Credit Facility, the Company is required to maintain compliance with financial covenants consisting of a quarterly minimum adjusted quick ratio and a quarterly minimum EBITDA level, as well as a maximum annual capital expenditures limit. The minimum adjust quick ratio is defined as the sum of the Company s cash held with SVB and 80% of eligible domestic accounts receivable divided by the total balance of debt owed to SVB. EBITDA, a non-GAAP term, is defined as 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 acquisition related transaction and restructuring expenses.

The remaining terms under the Third Amended Credit Facility were not amended from the Amended Credit Facility.

The balance of the line of credit as of September 30, 2011 was $30.4 million. However, based on the future commitments under the Third Amended Credit Facility the Company has reclassified $1.9 million of term loan principal payments from long-term debt to current portion of long-term debt as of September 30, 2011.

8. Commitments and Contingencies

Leases

The Company leases certain equipment under capital leases which expire on various dates through 2014. The Company and Scient x also lease their buildings and certain equipment and vehicles under operating leases which expire on various dates through 2017. Future minimum annual lease payments under such leases are as follows (in thousands):

Year Ending December 31,	Operating	Capital
Remainder of 2011	$ 982	$ 46
2012	3,717	178
2013	3,191	60
2014	2,811	1
2015	2,251	
Thereafter	1,276	
	$ 14,228	285
Less: amount representing interest		(8)
Present value of minimum lease payments		277
Current portion of capital leases		(169)
Capital leases, less current portion		$ 108

Rent expense under operating leases for the three months ended September 30, 2011 and 2010 was $1.0 million and $0.8 million, respectively. Rent expense under operating leases for the nine months ended September 30, 2011 and 2010 was $2.8 million and $2.3 million, respectively.

Litigation

In January 2011, the Company filed a complaint in the U.S. District Court for the Southern District of California against Biomet, Inc., alleging that Biomet s TPS-TL products infringe one of the Company s patents. The Company is seeking money damages, attorneys fees and interest. The outcome of the litigation cannot be predicted at this time and there can be no assurance that the Company will be successful in its claims.

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), *Cross Medical Products, LLC v. Alphatec Spine, Inc.,* Case No. 8:10-cv-00176-MRP -MLG, alleging that the Company breached a patent license agreement with Cross by failing to make certain royalty payments allegedly due under the agreement. Cross is seeking payment of prior royalties allegedly due from the Company s sales of polyaxial screws and an order from the court regarding payment of future royalties by the Company. In its complaint, Cross alleges a material amount of damages are due to it as a result of the Company s alleged breach of the patent license agreement. The Company denied the allegations in its answer to the complaint and intends to vigorously defend itself against the complaint. In February 2011 and July 2011, the court issued orders granting Cross s motions for partial summary judgment, and limiting the Company s counterclaims. The court rulings interpreted the license agreement as asserted by Cross, and found that the license agreement, as so interpreted, is enforceable. The Company intends to appeal the trial court s decisions. A trial to determine which products are subject to the patent license agreement, and therefore under the interpretation of the trial court subject to royalty payment, is currently scheduled for February 2012. The Company believes the damages are not currently estimable, as discovery with respect to this phase of the trial is still ongoing, but a judgment for damages in favor of Cross would have a material adverse effect on the Company s results of operations, financial condition and cash flows.

In 1998, Eurosurgical, a French company in the business of sales and marketing of spinal implants, entered into a distribution agreement for the United States, Mexico, Canada, India and Australia with Orthotec, LLC, a California company, or Orthotec. In 2004, Orthotec sued Eurosurgical in connection with a contractual dispute and a $9 million judgment was entered against Eurosurgical by a California court. At the same time, a federal court in California declared Eurosurgical liable to Orthotec for $30 million in connection with an intellectual property dispute. In 2006, Eurosurgical s European assets were ultimately acquired by Surgiview, SAS, or Surgiview, in a sale agreement approved by a French court.

Pursuant to this sale, Surgiview became a subsidiary of Scient x in 2006. Orthotec attempted to recover on Eurosurgical s obligations in California and federal courts by filing a motion in a California court to add Surgiview to the judgment against Eurosurgical on theories including successor liability and fraudulent conveyance. In February 2007, the California court denied Orthotec s motion, indicating that Orthotec had not carried its burdens of proof. Orthotec chose to not proceed with a further hearing in September 2007. In May 2008, after the acquisition of Scient x by HealthpointCapital in 2007, Orthotec sued Scient x, Surgiview, HealthpointCapital and certain Scient x directors (who also serve on our board) in a new action in California state court. In addition, at the same time, a similar action was filed in New York against HealthpointCapital and two directors of Scient x (who also serve on our board). In April 2009, the California court dismissed this matter on jurisdictional grounds, and Orthotec appealed such ruling. In December 2010, the California Court of Appeal issued a decision that affirmed in part and reversed in part the trial court s decision dismissing the entire California action based on lack of personal jurisdiction. The Court of Appeal affirmed the trial court s ruling that Orthotec failed to establish personal jurisdiction over all parties except Surgiview, finding that the trial court could exercise jurisdiction over that entity. In November 2009, the New York court dismissed Orthotec s claims based on collateral estoppel, and Orthotec appealed this ruling. In March 2011, the state appeals court in NY reversed the lower court s decision to dismiss Orthotec s claims, and the New York matter is proceeding with HealthpointCapital and certain Scient x directors (who also serve on our board) as the only defendants. While the Company intends to vigorously defend against the complaint, and 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 Orthotec could have a significant adverse effect on the Company s financial condition and results of operations.

In 2004, Scient x s wholly owned U.S. subsidiary, Scient x USA, Inc. (Scient x USA), entered into a distribution agreement with DAK Surgical, Inc. and DAK Spine, Inc., two independent distributors (collectively DAK), for the distribution of products in certain defined sales areas. In September 2007, shortly after the expiration of the distribution contract, DAK, and their principals filed a lawsuit in Florida state court against Scient x USA and Scient x in which they alleged, among other things, that (i) Scient x USA breached the distribution agreement, (ii) Scient x USA interfered with DAK s business relationships, and (iii) personnel at Scient x USA made defamatory remarks regarding the principals of DAK. In February 2011, the court granted Scient x USA s Partial Motion for Summary Judgment finding that there was no obligation for Scient x USA or Scient x to pay DAK under a change of ownership clause in the distribution agreement with DAK. While the Company intends to vigorously defend itself against the complaint, and believes that the plaintiff s remaining allegations are also without merit, the outcome of the litigation cannot be predicted at this time and any outcome in favor of DAK could have a significant adverse effect on the Company s financial condition and results of operations.

In August 2009, a complaint filed under the qui tam provisions of the United States Federal False Claims Act (the FCA) that had been filed by private parties against 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). The complaint alleged violations of the FCA arising from allegations that Scient x USA engaged in improper activities related to consulting payments to surgeon customers. The relators in the complaint were the principals of the plaintiff in the DAK Surgical matter discussed above. Under the FCA, the United States Department of Justice, Civil Division, (DOJ), had a certain period of time in which to decide whether to intervene and conduct the action against Scient x, or to decline to intervene and allow the private plaintiffs to proceed with the case. In August 2009, the DOJ filed a notice informing the court that it was declining to intervene in the case. In December 2009, the private plaintiffs who filed the action moved the court to dismiss the matter without prejudice, the Attorney General consented to such dismissal and the matter was dismissed without prejudice. Despite the dismissal of this matter, the DOJ is continuing its review of the facts alleged by the original plaintiffs in this matter. To date, neither the Company nor Scient x USA have been subpoenaed by any governmental agency in connection with this review. The Company believes that Scient x USA s 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, however, the outcome of the matter cannot be predicted at this time and any adverse outcome could have a significant adverse effect on the Company s financial condition and results of operations.

On August 10, 2010, a purported securities class action complaint was filed in the United States District Court for the Southern District of California on behalf of all persons who purchased the Company s common stock between December 19, 2009 and August 5, 2010 against us and certain of its directors and executives alleging violations of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder. On February 17, 2011, an amended complaint was filed against the Company and certain of its directors and officers adding alleged violations of the Securities Act of 1933. HealthpointCapital, Jefferies & Company, Inc., Canaccord Adams, Inc., Cowen and Company, Inc., and Lazard Capital Markets LLC are also defendants in this action. The complaint alleges that the defendants made false or misleading statements, as well as failed to disclose material facts, about the Company s business, financial condition, operations and prospects, particularly relating to the Scient x transaction and the Company s financial guidance following the closing of the acquisition. The complaint seeks unspecified monetary damages, attorneys fees, and other unspecified relief. The Company believes the claims are without merit and intends to vigorously defend itself against this complaint; however no assurances can be given as to the timing or outcome of this lawsuit.

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On August 25, 2010, an alleged shareholder of the Company s filed a derivative lawsuit in the Superior Court of California, San Diego County, purporting to assert claims on behalf of the Company against all of its directors and certain of its officers and HealthpointCapital. Following the filing of this complaint, similar complaints were filed in the same court and in the U.S. District Court for the Southern District of California against the same defendants containing similar allegations. The complaint filed in Federal court was dismissed by the plaintiff without prejudice in July 2011. The state court complaints have been consolidated into a single action. The Company has been named as a nominal defendant in the consolidated action. Each complaint alleges that the Company s directors and certain of its officers breached their fiduciary duties to the Company related to the Scient x transaction, and by making allegedly false statements that led to unjust enrichment of HealthpointCapital and certain of the Company s directors. The complaints seek unspecified monetary damages and an order directing the Company to adopt certain measures purportedly designed to improve its corporate governance and internal procedures. This consolidated lawsuit has been stayed by order of the court until August 26, 2012. The Company believes the claims are without merit and intends to vigorously defend itself against these complaints; however no assurances can be given as to the timing or outcome of this lawsuit.

At September 30, 2011, the probable outcome of any of the aforementioned litigation matters cannot be determined nor can the Company estimate a range of potential loss. Accordingly, in accordance with the authoritative guidance on the evaluation of contingencies, the Company has not recorded an accrual related to these litigation matters. 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 will 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.

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 condensed consolidated statement of operations as a component of cost of revenues.

9. 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Numerator:				
Loss from continuing operations	$ (1,304)	$ (3,790)	$ (6,215)	$ (11,557)
Income from discontinued operations, net of tax				78
Net loss	$ (1,304)	$ (3,790)	$ (6,215)	$ (11,479)
Denominator:				
Weighted average common shares outstanding	89,219	87,389	89,120	75,880
Weighted average unvested common shares subject to repurchase	(390)	(399)	(363)	(486)
Weighted average common shares outstanding basic	88,829	86,990	88,757	75,394
Effect of dilutive securities:				
Options, warrants and restricted share awards				
Weighted average common shares outstanding diluted	88,829	86,990	88,757	75,394

Net loss per common share:				
Basic and diluted net loss per share from continuing operations	$ (0.01)	$ (0.04)	$ (0.07)	$ (0.15)
Basic and diluted net income per share from discontinued operations	0.00	0.00	0.00	0.00
Basic and diluted net loss per share	$ (0.01)	$ (0.04)	$ (0.07)	$ (0.15)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Options to purchase common stock	4,381	3,514	4,210	2,216
Unvested restricted share awards	390	399	363	486
Total	4,771	3,913	4,573	2,702

10. Income Taxes

To calculate its interim tax provision, at the end of each interim period the Company estimates the annual effective tax rate and applies that to its ordinary quarterly earnings. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences between book and tax amounts, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. The Company s unrecognized tax benefits decreased $0.8 million during the three months ended September 30, 2011. The decrease in unrecognized tax benefits during the three months ended September 30, 2011 was primarily related to an income tax settlement with the French authorities of approximately $0.8 million, offset by an increase related to federal and state research credits. The unrecognized tax benefits at September 30, 2011 were $4.0 million. With the facts and circumstances currently available to the Company, it is reasonably possible that there will be no change in the Company s unrecognized tax benefits within the next 12 months.

The income tax benefit consists primarily of income tax benefits related to the French income tax settlement and acquired Scient x operations offset by state income taxes and the tax effect of changes in deferred tax liabilities associated with tax deductible goodwill.

The Company is not currently under examination by the IRS or U.S. state and local authorities.

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 has one operating and one reportable business segment.

During the three and nine months ended September 30, 2011 and 2010, the Company operated in two geographic regions, the U.S. and International which consists of locations outside of the U.S. In the International geographic segment, sales in Japan for the three months ended September 30, 2011 and 2010 totaled $6.5 million and $4.7 million, respectively, which represented greater than 10 percent of the Company s consolidated revenues for the respective periods. For the nine months ended September 30, 2011 sales in Japan totaled $17.6 million which represented greater than 10 percent of the Company s consolidated revenues for such period. For the nine months ended September 30, 2010, sales in other individual countries included in International did not exceed 10 percent of consolidated revenues.

Revenues attributed to the geographic location of the customer were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
United States	$ 32,674	$ 30,010	$ 101,073	$ 87,763

International	14,945	14,836	47,128	37,829
Total consolidated revenues	$ 47,619	$ 44,846	$ 148,201	$ 125,592

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

	September 30, 2011	December 31, 2010
United States	$ 197,014	$ 208,175
International	175,676	168,841
Total consolidated assets	$ 372,690	$ 377,016

12. Related Party Transactions

Dr. Stephen H. 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 into a 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 three and nine months ended September 30, 2011 and 2010, the Company incurred costs of $60,000 in each quarter for advisory services provided by Dr. Hochschuler.

13. Discontinued Operations and Restructuring Activities

Discontinued Operations

In connection with the Company s strategy to focus on the sale of spinal implants in Japan, Alphatec Pacific entered into an agreement to sell one of its wholly owned subsidiaries, IMC Co., to a third party in April 2010. The Company determined that IMC Co. was a non-strategic asset given that it is a distribution company that primarily sells general orthopedic trauma products in a limited geographic market. In exchange for all of the shares of IMC Co., the purchaser agreed to pay the Company a total purchase price of $0.5 million, of which $0.3 million was paid during the second quarter of 2010, and the remaining $0.2 million will be paid thereafter in three annual installments. A gain of $0.2 million was recorded on the sale of IMC Co. by the Company during the second quarter of 2010.

The amount of IMC Co. revenue and pretax income reported in discontinued operations for the three and nine months ended September 30, 2010 is as follows (in thousands):

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Revenue	$	$ 3,109
Income from continuing operations before income taxes	$	$ 120
Income tax provision		42
Income from discontinued operations, net of tax	$	$ 78

Restructuring Activities

As a result of the acquisition of Scient x, the Company elected to consolidate Scient x s operations in the United States, close its United States facility and move its operations to the Company s corporate location in Carlsbad, California. This consolidation was completed by April 30, 2010. Restructuring expenses also consist of severance and other personnel costs related to the reorganization of the Company s management.

The changes in the restructuring liability for the three months ended September 30, 2011 is as follows (in thousands):

Restructuring liability as of June 30, 2011	$ 298
Additional severance and personnel costs incurred	399