Alphatec Holdings, Inc.
Form 10-Q
November 08, 2010
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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, 2010

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 ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an 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 4, 2010, there were 88,572,946 shares of the registrant s common stock outstanding.

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ALPHATEC HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

September 30, 2010

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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, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 28,854	$ 10,085
Accounts receivable, net	43,151	24,766
Inventories, net	53,552	29,515
Prepaid expenses and other current assets	5,851	3,128
Deferred income tax assets	1,817	128
Total current assets	133,225	67,622
Property and equipment, net	39,415	30,356
Goodwill	172,318	60,113
Intangibles, net	42,354	2,296
Other assets	3,081	1,501
Total assets	$ 390,393	$ 161,888
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 19,272	$ 12,781
Accrued expenses	24,580	16,439
Deferred revenue	2,984	2,135
Other current liabilities	1,033	
Current portion of long-term debt	10,147	6,724
Total current liabilities	58,016	38,079
Long-term debt, less current portion	22,680	23,631
Other long-term liabilities	4,525	1,008
Deferred income tax liabilities	11,986	738
Redeemable preferred stock, $0.0001 par value; 20,000 authorized at September 30, 2010 and December 31, 2009; 3,319 shares issued and outstanding at both September 30, 2010 and December 31, 2009	23,603	23,603
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.0001 par value; 200,000 authorized at September 30, 2010 and December 31, 2009; 87,758 and 52,558 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	9	5

Treasury stock, 19 shares	(97)	
Additional paid-in capital	380,263	175,021
Accumulated other comprehensive income	1,807	1,263
Accumulated deficit	(112,939)	(101,460)
Total Alphatec stockholders equity	269,043	74,829
Non-controlling interest	540	
Total stockholders equity	269,583	74,829
Total liabilities and stockholders equity	$ 390,393	$ 161,888

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,**	
	2010	**2009**	**2010**	**2009**
Revenues	$ 44,846	$ 30,103	$ 125,592	$ 87,358
Cost of revenues	15,546	10,028	43,516	28,311
Amortization of acquired intangible assets	373		742	
Gross profit	28,927	20,075	81,334	59,047
Operating expenses:				
Research and development	3,751	3,630	12,347	9,933
In-process research and development	2,425	50	2,967	5,833
Sales and marketing	17,052	12,088	47,571	36,618
General and administrative	7,933	3,895	21,500	15,216
Amortization of acquired intangible assets	533		1,002	
Transaction related expenses	6	1,240	3,651	1,240
Restructuring expenses	702		2,389	
Total operating expenses	32,402	20,903	91,427	68,840
Operating loss	(3,475)	(828)	(10,093)	(9,793)
Other income (expense):				
Interest income	262	16	297	58
Interest expense	(1,417)	(931)	(3,722)	(2,756)
Other income (expense), net	70	285	1,062	190
Total other income (expense)	(1,085)	(630)	(2,363)	(2,508)
Loss from continuing operations before taxes	(4,560)	(1,458)	(12,456)	(12,301)
Income tax benefit	(770)	(94)	(899)	(68)
Loss from continuing operations	(3,790)	(1,364)	(11,557)	(12,233)
Income from discontinued operations, net of tax		81	78	264
Net loss before non-controlling interest	(3,790)	(1,283)	(11,479)	(11,969)
Net loss attributable to non-controlling interest				
Net loss	$ (3,790)	$ (1,283)	$ (11,479)	$ (11,969)
Net income (loss) per common share:				
Basic and diluted net loss per share from continuing operations	$ (0.04)	$ (0.02)	$ (0.15)	$ (0.25)
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	$ (0.04)	$ (0.02)	$ (0.15)	$ (0.25)

Weighted-average shares used in computing net income (loss) per share:				
Basic and diluted	86,990	51,516	75,394	48,411

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, 2010	2009
Operating activities:		
Net loss	$ (11,479)	$ (11,969)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,451	8,644
Stock-based compensation	2,326	2,563
Interest expense related to amortization of debt discount and debt issuance costs	722	444
In-process research and development paid in stock	1,000	3,013
Provision for (recoveries from) doubtful accounts	764	(20)
Provision for excess and obsolete inventory	1,839	1,016
Gain on sale of property and equipment		(79)
Gain on sale of IMC Co. (discontinued operations)	(188)	
Deferred income tax (benefit) expense	(1,101)	110
Changes in operating assets and liabilities:		
Accounts receivable	(5,145)	(2,889)
Inventories	(13,297)	(5,401)
Prepaid expenses and other current assets	(1,666)	628
Other assets	268	439
Accounts payable	(1,384)	145
Accrued expenses and other	888	110
Deferred revenues	849	209
Net cash used in operating activities	(13,153)	(3,037)
Investing activities:		
Cash received in acquisition of Scient x	1,589	
Proceeds from sale of IMC Co. (discontinued operations)	329	
Proceeds from sale of Noas investment		383
Purchases of property and equipment	(11,657)	(9,657)
Purchase of intangible assets	(500)	(1,353)
Net cash used in investing activities	(10,239)	(10,627)
Financing activities:		
Exercise of stock options	211	31
Net proceeds from issuance of common stock	49,659	9,841
Borrowings under lines of credit	2,610	3,868
Repayments under lines of credit	(1,796)	(2,078)
Principal payments on capital lease obligations	(129)	(278)
Principal payments on notes payable	(7,273)	(1,499)
Net cash provided by financing activities	43,282	9,885
Effect of exchange rate changes on cash and cash equivalents	(1,121)	(426)

Net increase (decrease) in cash and cash equivalents		18,769		(4,205)
Cash and cash equivalents at beginning of period		10,085		18,315
Cash and cash equivalents at end of period	$	28,854	$	14,110

See accompanying notes to unaudited condensed consolidated financial statements.

ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2010	2009
Supplemental cash flow information:		
Cash paid for interest	$ 2,460	$ 1,877
Cash paid for income taxes	339	165
Purchases of property and equipment in accounts payable	3,765	3,342
Financing of software and support by software provider	872	
Financing of insurance premiums by insurance provider	406	769
Issuance of common stock for litigation settlement		500
Issuance of common stock in acquisition of Scient x	151,639	
Non-cash exercise of warrants	540	360
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. (Alphatec Spine) designs, develops, manufactures and markets products 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 subsidiary, Scient x S.A. (Scient x), via a direct salesforce in France, Italy and the United Kingdom and via independent distributors in the rest of Europe, the Middle East and Africa, South America and Latin America. In Asia and Australia, the Company markets its products through its subsidiary, Alphatec Pacific, Inc. (Alphatec Pacific), and through Scient x s distributors in China, Korea and Australia.

On March 26, 2010, the Company completed its acquisition of Scient x, a global medical device company based in France that designs, develops and manufactures surgical implants to treat disorders of the spine (See Note 3).

Basis of Presentation

The 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 include the results of Scient x beginning April 1, 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 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. The results of operations and the gain on sale associated with this business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009. The effects of the discontinued operations were considered immaterial to the Company s condensed consolidated balance sheet at December 31, 2009 (See Note 14).

The accompanying condensed consolidated balance sheet as of December 31, 2009, 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 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 are adequate to make the information not misleading. The interim financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the periods presented. All such adjustments are of a normal and recurring nature. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in Alphatec Holdings Annual Report on Form 10-K and Amendment No. 1 and No. 2 thereto for the fiscal year ended December 31, 2009, as filed with the SEC on March 2, 2010, April 2, 2010 and April 8, 2010, respectively.

Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010, or any other future periods.

The accompanying condensed 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 $28.9 million and available credit of $2.6 million at September 30, 2010 will be sufficient to fund its cash requirements through at least September 30, 2011.

On March 26, 2010, the Company completed its acquisition of Scient x (See Note 3). Subsequent to the closing of the acquisition, the Company became responsible for managing the operations of the combined entities.

In conjunction with the closing of its acquisition of Scient x, the Company amended its Loan and Security Agreement (as amended, the Credit Facility) with Silicon Valley Bank and Oxford Finance Corporation (the Lenders) that it had entered into in December 2008 (See Note 7). In addition, Scient x s existing term loan facility with Oxford Finance Corporation was combined with the Company s term loan facility. The covenant requirements were revised under the Credit Facility and consist of a combined cash-flow covenant to maintain a minimum fixed charge coverage ratio on a consolidated basis. The minimum fixed charge coverage ratio increased from the second quarter 2010 to the third quarter 2010 and is consistent thereafter. There is also a requirement for the Company to maintain a cash balance with Silicon Valley Bank equal to at least $10 million. In October 2010, the Company amended its Credit Facility with Silicon Valley Bank. See Note 15 for additional information.

Reclassification

Certain balances have been reclassified in the accompanying consolidated financial statements to conform to the current year presentation.

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 fiscal year ended December 31, 2009, included in the Company s Annual Report on Form 10-K filed with the SEC on March 2, 2010, as amended. Except as discussed below, these accounting policies have not significantly changed during the nine months ended September 30, 2010.

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, 2010, 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. 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 marginally greater than the Company s carrying value at September 30, 2010. 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, 2010.

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 marginally 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 2010. The Company will also be required to perform additional interim analysis if its stock price and market capitalization do not increase above current levels.

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 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 prescribed 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 adoption of this standard is not expected to have a material impact on the Company s financial position or results of operations.

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3. Acquisition 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 100% of outstanding Scient x stock was exchanged pursuant to a fixed ratio for 24,000,000 shares of the Company s common stock. The consideration paid was reduced by a certain number of shares calculated at the closing in exchange for the payment of certain 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, in connection with the acquisition. The aggregate number of shares exchanged was 23,730,644 shares of the Company s common stock.

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 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 fair value of the replacement options and the amount included in consideration transferred 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 preliminary estimated total purchase price was as follows (in thousands):

Fair value of Alphatec common stock issued upon closing	$ 151,639
Fair value of Scient x options replaced	1,040
Payable in exchange for reduction in shares to be paid in cash	1,618
Total estimated 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 preliminary estimated fair values at the date of the completion of the acquisition and such estimates are subject to revision based on the Company s final determination of valuations associated with net tangible assets, intangible assets, deferred taxes, contingent liabilities, and the non-controlling interest. Consequently, the amounts recorded at September 30, 2010 are subject to change, and the final amounts may differ.

The following table summarizes the preliminary 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		$ 3,090
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		111,763
Total preliminary estimate purchase price allocation		$ 154,297

A preliminary estimate of $3.1 million has been allocated to Scient x net tangible assets assumed and $39.4 million has been allocated to identifiable intangible assets acquired. A value of $111.8 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.

Inventories were increased by Alphatec to their 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 reverses in the next 14 months and is being 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 acquired product families were separated into the following categories: core, developed, and in-process technology. The core, developed, and in-process technology values were determined by estimating the present values of the net cash flows expected to be generated by each category of technology.

Trademarks were segregated into the categories of corporate trademarks and key product trademarks. Trademark values were calculated 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 customer-related intangible value was determined 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. Intangibles related to the distribution network values were determined by estimating the difference between the present values of expected future net cash flows generated with and without the distribution network in place.

The physician education programs value was determined by estimating the costs to rebuild such a program.

The fair value of the non-controlling interest as of the acquisition date was $0.5 million. The fair value of the non-controlling interest 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 the countries in which it operates. The Company has conducted a preliminary assessment of liabilities arising from these tax matters in each of such jurisdictions, and has recognized provisional amounts in its initial accounting for the acquisition of Scient x for the identified liabilities. However, the Company is continuing its review of these matters during the measurement period, and if new information obtained about facts and circumstances that existed at the acquisition date identifies adjustments to the liabilities initially recognized, as well as any additional liabilities that existed as the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to the provisional tax amounts initially recognized.

The changes in the carrying amount of goodwill since the acquisition date through September 30, 2010 were as follows (in thousands):

Goodwill recorded for Scient x acquisition as of March 31, 2010	$ 112,524
Purchase price adjustments to net tangible assets	(761)
Effect of foreign exchange rate on goodwill	376
Balance at September 30, 2010	$ 112,139

The following unaudited pro forma information presents the condensed consolidated results of operations of the Company and Scient x as if the acquisition had occurred on January 1, 2009 (in thousands, except share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	$ 44,846	$ 43,949	$ 136,927	$ 124,214
Loss from operations	(2,767)	(2,352)	(5,209)	(18,468)
Net loss	(3,082)	(3,569)	(5,922)	(20,223)
Net loss per share, basic and diluted	$ (0.04)	$ (0.05)	$ (0.07)	$ (0.28)

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 and nine months ended September 30, 2010, the Company incurred transaction costs related to the acquisition of $0 and $3.7 million, respectively. For both the three and nine months ended September 30, 2009, the Company incurred $1.2 million of such costs. These costs were expensed as incurred.

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

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

4. Balance Sheet Details

Accounts Receivable

Accounts receivable consist of the following (in thousands):

	September 30, 2010	December 31, 2009
Accounts receivable	$ 43,976	$ 25,084
Allowance for doubtful accounts	(825)	(318)
Accounts receivables, net	$ 43,151	$ 24,766

Inventories

Inventories consist of the following (in thousands):

	September 30, 2010			December 31, 2009		
	Gross	Reserve for excess and	Net	Gross	Reserve for excess and	Net

		obsolete			**obsolete**	
Raw materials	$ 4,157	$	$ 4,157	$ 2,866	$	$ 2,866
Work-in-process	2,868		2,868	1,644		1,644
Finished goods	58,261	(11,734)	46,527	33,650	(8,645)	25,005
Inventories, net	$ 65,286	$ (11,734)	$ 53,552	$ 38,160	$ (8,645)	$ 29,515

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Property and Equipment

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

	Useful lives (in years)	September 30, 2010	December 31, 2009
Surgical instruments	4	$ 50,782	$ 35,286
Machinery and equipment	7	11,732	9,684
Computer equipment	5	2,778	2,575
Office furniture and equipment	5	3,685	3,128
Leasehold improvements	various	3,443	3,355
Building	39	220	201
Land	n/a	16	15
Construction in progress	n/a	644	368
		73,300	54,612
Less accumulated depreciation and amortization		(33,885)	(24,256)
Property and equipment, net		$ 39,415	$ 30,356

Total depreciation expense was $3.6 million and $2.3 million for the three months ended September 30, 2010 and 2009, respectively, and $9.5 million and $6.2 million for the nine months ended September 30, 2010 and 2009, respectively.

The Company had assets under capital leases of $3.3 million and $3.1 million at September 30, 2010 and December 31, 2009, respectively. Accumulated depreciation on these assets totaled $2.8 million and $2.5 million at September 30, 2010 and December 31, 2009, respectively. Depreciation expense for these capital leases included in total depreciation expense above was $0.1 million for both the three months ended September 30, 2010 and 2009 and $0.3 million for both the nine months ended September 30, 2010 and 2009, respectively.

Intangible Assets

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

	Useful lives (in years)	September 30, 2010	December 31, 2009
Developed product technology	5-8	$ 23,283	$ 13,700
Distribution rights	3	4,097	3,737
Intellectual property	5	1,004	1,004
License agreements	1-7	2,300	350
Core technology	10	3,644	
In-process technology	Indefinite	1,755	
Trademarks and trade names	5-9	3,804	
Customer-related	15	16,056	
Distribution network	10	1,614	
Physician education programs	10	3,104	
Supply agreement	10	225	225
		60,886	19,016
Less accumulated amortization		(18,532)	(16,720)

Intangible assets, net	$ 42,354	$ 2,296

Total amortization expense was $1.0 million and $0.9 million for the three months ended September 30, 2010 and 2009, respectively and $3.0 million and $2.4 million for the nine months ended September 30, 2010 and 2009, respectively.

The future expected amortization expense related to intangible assets as of September 30, 2010 is as follows (in thousands):

Year Ending December 31,	
Remainder of 2010	$ 1,069
2011	4,276
2012	4,276
2013	4,231
2014	4,128
Thereafter	22,619
Total future expected amortization expense	40,599
Add: In-process technology	1,755
Total	$ 42,354

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Accrued Expenses

Accrued expenses consist of the following (in thousands):

	September 30, 2010	December 31, 2009
Legal	$ 709	$ 273
Accounting	698	452
Restructuring	995	
Customer credit	1,020	12
Sales milestone	1,116	
License and distribution agreements	1,450	
Deferred rent	2,098	2,277
Royalties	2,697	2,615
Commissions	3,783	3,072
Payroll and related	5,867	4,185
Other	4,147	3,553
Total accrued expenses	$ 24,580	$ 16,439

Deferred Revenues

During the three months ended September 30, 2010 and 2009, the Company shipped $0.2 million and $0.9 million, respectively, of products to European distributors in which the terms of such sales included extended payment terms. During the nine months ended September 30, 2010 and 2009, the Company shipped $3.6 million and $3.0 million, respectively, of products with such 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 September 30, 2010 and December 31, 2009 was $0.4 million and $1.3 million, respectively.

During the three months ended September 30, 2010 and 2009, the Company shipped $2.5 million and $0.3 million, respectively, of products to U.S. distributors that did not have extensive credit histories. During the nine months ended September 30, 2010 and 2009, the Company shipped $3.3 million and $1.5 million, respectively, of products to such distributors. As a result of a lack of extensive credit history, revenues for purchases by these distributors have been deferred until cash is received. The balance in deferred revenue relating to these distributors as of September 30, 2010 and December 31, 2009 was $2.6 million and $0.8 million, respectively.

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, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net loss, as reported	$ (3,790)	$ (1,283)	$ (11,479)	$ (11,969)
Foreign currency translation adjustment	14,118	244	544	(128)
Comprehensive income (loss)	$ 10,328	$ (1,039)	$ (10,935)	$ (12,097)

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 2010, the change in the foreign currency translation amounts resulted from changes in the value of the Euro. The value of the Euro increased approximately 9% relative to the U.S. dollar during the third quarter of 2010. During the nine months ended September 30, 2010, the Euro s value declined approximately 6% relative to the U.S. dollar.

6. License and Developmental Consulting Agreements

OsseoFix Spinal Fracture Reduction System License Agreement

On April 16, 2009, the Company and Stout Medical Group LP (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 reasonable 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 of 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, 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 of 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 of the original consulting agreement were not changed. As the total cash consideration has been reduced to $0.2 million, the Company recorded the remaining amount that had not 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 in process research and development expense (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 had not been established since the final prototype of the device had not been completed and no alternative future use exists. The agreement includes milestone payments of $3.6 million consisting of cash and the Company s 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. 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.

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In December 2009, the Company and PST amended the OsseoScrew License Agreement (the OsseoScrew License Amendment). Under the OsseoScrew License Amendment, the terms relating to the payment of a $0.5 million development milestone payment were modified. The Company recorded a charge for IPR&D of $0.5 million in the fourth quarter of 2009 upon completion of a development milestone, 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 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 (the Helifuse/Helifix License Agreement) with Helix Point, LLC (Helix Point) 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. During the three months ended September 30, 2010, the Company recorded an intangible asset of $0.2 million which consisted of an accrual for the cash payment of $0.2 million for the assets received as this product is cleared for sale in Europe and technological feasibility is considered to have been achieved. The Company is amortizing this asset over seven years, the estimated life of the product.

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.

Supply Agreement with ETEX Corporation

In October 2009, Alphatec Spine entered into a supply and distribution agreement (the ETEX Agreement) with ETEX Corporation (ETEX), that provides Alphatec Spine with the rights to market and sell ETEX s EquivaBone and CarriGen products in the U.S and Europe, excluding Spain, under either ETEX s trademarks or Alphatec Spine s private label. The financial terms of the ETEX Agreement include 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.

Distribution Agreement with Parcell Spine, LLC

In January 2010, the Company entered into an exclusive distribution agreement (the Parcell Agreement) with Parcell Spine, LLC (Parcell Spine), which provides Alphatec with an exclusive right to distribute Parcell Spine s proprietary adult stem cells for the treatment of spinal disorders under either Parcell s trademarks or Alphatec Spine s private label. 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

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payment consisting of $1.0 million in cash and the issuance of $1.0 million of shares of the Company s common stock following the successful completion of a pre-clinical study; and (iii) sales milestone payments in cash and the Company s common stock. During the first quarter of 2010, the Company recorded an IPR&D charge of $0.5 million for the initial cash payment. During the three months ended September 30, 2010, the pre-clinical study milestone was achieved and the Company recorded an IPR&D charge totaling $2.0 million, which consisted of a cash payment of $1.0 million and the issuance of $1.0 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, additional items subject to risk of completion were necessary to comply with regulatory requirements and no alternative future use exists. The total number of shares of common stock, which were issued in accordance with the agreement for the achievement of a development milestone, was 465,116. In addition, during the three months ended September 30, 2010, the Company recorded an intangible asset of $1.5 million for a milestone payment required upon market launch when the product became commercially ready for sale which consisted of an accrual for the cash payment of $0.5 million and $1.0 million shares of the Company s common stock to be issued. The Company is amortizing this asset over seven years, the estimated life of the product. As of September 30, 2010, the Company recorded a long-term liability for the shares to be issued. The total number of shares of common stock, which were issued in accordance with the agreement for the achievement of a development milestone on October 22, 2010, was 476,190.

Asset Purchase Agreement with AlpineSpine, LLC

In April 2010, the Company entered into an Asset Purchase Agreement with AlpineSpine, LLC (the AlpineSpine Agreement) to purchase an anterior cervical plate system, including all of the related intellectual property and inventory. The financial terms of the AlpineSpine Agreement include: (i) a payment of $0.5 million in exchange for the assets received in April 2010 related to the anterior cervical plate system; (ii) a milestone payment after full market launch; 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 2010, the Company recorded an intangible asset of $0.5 million for the assets received as this product is cleared for sale in the U.S. and technological feasibility is considered to have been achieved. The Company is amortizing this asset over seven years, the estimated life of the product.

License Agreement with R Tree Innovations LLC

In September 2010, the Company entered into a License Agreement (the R Tree License Agreement) with R Tree Innovations LLC (R Tree) that provides the Company with a worldwide license to develop and commercialize R Tree s proprietary intellectual property related to its Epicage interbody fusion device and related instrumentation. The financial terms of the R Tree License Agreement include: (i) a cash payment of $0.8 million and the issuance of $0.5 million of the Company s common stock following the execution of the R Tree License Agreement; (ii) development and 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 three months ended September 30, 2010, the Company recorded an intangible asset of $1.3 million following the execution of the R Tree License Agreement which consisted of an accrual for the cash payment of $0.8 million and $0.5 million shares of the Company s common stock to be issued. The Company is amortizing this asset over seven years, the estimated life of the product. As of September 30, 2010, the Company recorded a long-term liability for the shares to be issued. The total number of shares of common stock, which were issued in accordance with the R Tree License Agreement on October 22, 2010, was 228,310.

License Agreement with Merlot Orthopedix, Inc.

In July 2010, the Company entered into a License Agreement (the Merlot Ortho Agreement) with Merlot Orthopedix, Inc. (Merlot Ortho) that provides the Company with a worldwide license to develop and commercialize Merlot Ortho s proprietary intellectual property related to its bone anchorage, interbody stabilizer, locking mechanism and certain other technologies. The financial terms of the Merlot Ortho License Agreement include: (i) a cash payment of $0.3 million following the execution of the Merlot Ortho License Agreement; (ii) a cash payment of $150,000 for materials transferred to Alphatec Spine; (iii) development and sales milestone payments in cash that could begin to be achieved and paid in 2011; 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 three months ended September 30, 2010, the Company recorded an IPR&D charge of $0.4 million for the initial payment and material transfer 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.

7. Debt

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 carried a fixed interest rate of 11.25% with interest payments due monthly and principal repayments commencing in October 2009. Thereafter, the Company is required to repay the principal plus interest in 30 equal monthly installments, ending in April 2012. A finance charge of $0.8 million is due in April 2012. The working capital line of credit carried a variable 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.

On March 26, 2010, the Company amended its Credit Facility with the Lenders. The working capital line of credit has been increased by $10 million, to $25 million. In addition, the Company combined the previously existing term loan facility provided by Oxford Finance Corporation to Scient x with the Company s existing term loan facility. Commencing in the second quarter 2010, the amended term loan will collectively not exceed $19.5 million.

Alphatec s term loan interest rate was amended to a fixed rate of 12.0%. Alphatec is required to repay the principal plus interest in 25 equal monthly installments, ending in April 2012. In connection with the amendment, the existing finance charge of $0.8 million has been increased by $0.2 million to $1.0 million. The finance charge is being accrued to interest expense through April 2012, when it is due and payable. The Company will pay a prepayment penalty if the loan is repaid prior to maturity. The balance of Alphatec s term loan as of September 30, 2010 was $9.8 million, net of the debt discount.

In May 2009, Scient x had entered into a term loan facility with Oxford Finance Corporation for $7.5 million. This term loan has been included under the Credit Facility. Scient x s term loan carries a fixed interest rate of 12.42%. Scient x is required to repay the principal plus interest in 36 equal monthly installments, ending in June 2012. In connection with the Credit Facility, the Scient x term loan finance charge has been increased to $0.5 million. The finance charge will be accrued to interest expense through June 2012, when it is due and payable. The collateral granted to Oxford under the original term loan facility will remain in full effect, amended as necessary to accommodate the acquisition of Scient x and to conform to the terms of the Credit Facility. Scient x s previously existing financial covenant to maintain a minimum level of revenues has been eliminated under the Credit Facility. The balance of Scient x s term loan as of September 30, 2010 was $5.5 million.

The working capital line of credit interest rate was amended to equal the prime rate plus 4.50%, with a floor rate of 8.50%. The repayment terms under the working capital line of credit were not amended. Interest-only payments are due monthly and the principal is due at maturity in April 2012. As of September 30, 2010, the Company has $2.6 million remaining available to be drawn under the working capital line of credit based on its eligible borrowing base.

The funds from the credit facility are intended to serve as a source of working capital for ongoing operations and working capital needs. In connection with the amendment, the Company paid debt issuance costs and other transaction fees totaling $0.8 million. Included in debt issuance costs were a facility fee of $0.4 million and a line of credit commitment fee of $0.1 million. The debt issuance costs were capitalized and are being amortized over the remaining term of the loan using the effective interest method.

To secure the repayment of any amounts borrowed under the 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. Additionally, the Lenders received a pledge on a portion of the Scient x shares owned by the Company.

Commencing in the second quarter of 2010, the Company (including Scient x) is also required to maintain compliance with a minimum fixed charge coverage ratio defined as Adjusted EBITDA (a non-GAAP term defined as net income (loss) excluding the effects of interest, taxes, depreciation, amortization, stock-based compensation costs and other non-recurring income or expense items, such as IPR&D expense, acquisition-related restructuring expense and transaction related expenses) divided by total debt service. The Company is also required to maintain a cash balance with Silicon Valley Bank equal to at least $10 million. As of September 30, 2010, the Company was in compliance with the financial covenants set forth in the Credit Facility.

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.

In connection with the original Credit Facility, the Company had issued warrants to the Lenders to purchase an aggregate of 476,190 shares of the Company s common stock. The warrants were 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 March 2010, one of the Lenders exercised all of its warrants pursuant to the cashless exercise provision of its agreement (See Note 10). The other Lender had previously exercised all of its warrants in September 2009.

During the three and nine months ended September 30, 2010, the Company repaid $0 and $1.8 million, respectively, and drew an additional $1.0 million and $2.6 million, respectively, on the working capital line of credit. The balance of the line of credit as of September 30, 2010 was $15.5 million. The balance of the combined term loans was $15.3 million, net of the debt discount.

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Amortization of the debt discount and debt issuance costs and accretion of the finance charge, which is recorded as a non-cash interest expense, totaled $0.5 million and $0.2 million for the three months ended September 30, 2010 and 2009, respectively, and $1.3 million and $0.7 million for the nine months ended September 30, 2010 and 2009, respectively. Interest expense for the term loans and working capital line of credit, excluding debt discount and debt issuance cost amortization and accretion of the additional finance charge, totaled $0.8 million and $0.6 million for the three months ended September 30, 2010 and 2009, respectively, and $2.4 million and $1.9 million for the nine months ended September 30, 2010 and 2009, respectively.

In October 2010, the Company amended its Credit Facility. See Note 15 for additional information.

Other Debt Agreements

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 of 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 September 30, 2010, the balance of the notes and the bond totaled $0.5 million.

The Company and Scient x 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 September 30, 2010, the balance of these capital leases totaled $0.4 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 September 30, 2010 was $0.1 million.

During the second quarter of 2010, the Company executed a financing agreement totaling $0.5 million for the payment of premiums on various insurance policies. The financing arrangement bears interest at a rate of 3.75% and is payable through March 2011. The balance of such financing agreement as of September 30, 2010 totaled $0.3 million.

In February 2010, the Company executed a note payable with Oracle for the purchase of software and the related support totaling $0.9 million. The loan bears interest at 5.3% and has a maturity date of February 2013. An initial payment of $0.1 million was made in February 2010. Payments of principal and interest are due every three months. The balance of this note as of September 30, 2010 was $0.6 million.

Scient x has a conditional interest free loan with OSEO Anvar, a French government agency that provides research and development financing to French companies. At the loan s inception, an imputed interest rate of 4% was used to calculate the present value of the loan. Scient x complied with the loan conditions and was therefore granted the contractual repayment terms which consisted of annual repayments in March of each year. Scient x repaid $0.1 million in March 2010. The balance of this loan as of September 30, 2010 was $0.1 million.

Principal payments on debt are as follows as of September 30, 2010 (in thousands):

Year Ending December 31,	
Remainder of 2010	$ 2,508
2011	10,217
2012	21,357
2013	54
2014	4
Thereafter	
Total	34,140
Less: finance charge being accrued to interest expense through April 2012, and debt discount	(1,746)
Add: capital lease principal payments	433
Total	32,827
Less: current portion of long-term debt	(10,147)

Long-term debt, net of current portion	$ 22,680

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8. Commitments and Contingencies

Leases

The Company and Scient x lease certain equipment under capital leases which expire on various dates through 2013. 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 2010	$ 1,009	$ 65
2011	3,290	167
2012	2,840	167
2013	2,644	57
2014	2,180	
Thereafter	3,492	
	$ 15,455	456
Less: amount representing interest		(23)
Present value of minimum lease payments		433
Current portion of capital leases		(161)
Capital leases, less current portion		$ 272

Rent expense under operating leases for the three months ended September 30, 2010 and 2009 was $0.8 million and $0.5 million, respectively. Rent expense under operating leases for the nine months ended September 30, 2010 and 2009 was $2.3 million and $1.7 million, respectively.

Litigation

In February 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 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 pedicle screws and an order from the court regarding payment of future royalties by the Company. While the Company denied the allegations in its answer to the complaint and believes that Cross 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.

In 2002, Eurosurgical (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 (Orthotec). In 2004, Orthotec sued Eurosurgical in connection with an intellectual property 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 2006, Eurosurgical s European assets were ultimately acquired by Surgiview, SAS (Surgiview) in a sale 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 dismissed Orthotec s motion, indicating that Orthotec had not carried its burden of proof to establish successor liability. Orthotec chose to not proceed with a further hearing in June 2007. After the acquisition of Scient x by HealthpointCapital in 2007, Orthotec sued Scient x, Surgiview, HealthpointCapital and certain Scient x directors in California state court and federal court in New York. In April 2009, the California court dismissed this matter on jurisdictional grounds, and Orthotec has appealed such ruling. In November 2009, the New York court dismissed Orthotec s claims based on collateral estoppel, and Orthotec has appealed this ruling. 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 Orthotec could have a significant adverse effect on the Company s financial condition and results of operations.

In 2004, Scient x s U.S. subsidiary, Scient x USA, Inc. (Scient x USA) entered into a distribution agreement with DAK Surgical, Inc., an independent distributor (DAK Surgical), for the distribution of Scient x s products in certain defined sales areas. In September 2007, shortly after the termination of its distribution contract, DAK Surgical filed a lawsuit against Scient x USA in which it alleges, among other things, that it is entitled to a change of control payment pursuant to the terminated distribution contract. 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 DAK Surgical 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 (the 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 Scient x USA nor the Company has 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.

Securities Class Action Lawsuit

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 the Company and certain of our directors and executives alleging violations of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder. HealthpointCapital is also a defendant in this matter. The complaint alleges that the Company made false and/or misleading statements, as well as failed to disclose material facts about our business, financial condition, operations and prospects, particularly relating to the Scient x transaction and the financial guidance for the Company following the closing of the acquisition. The complaint seeks a determination that the action may be maintained as a class action, an award of unspecified monetary damages and other unspecified relief. No assurances can be given as to the timing or outcome of this lawsuit.

Derivative Actions

On August 25, 2010, an alleged shareholder of the Company 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. HealthpointCapital is also a defendant in this matter. The Company has been named as a nominal defendant in the action. The complaint alleges that the Company s directors and certain of its officers breached their fiduciary duties to the Company by making allegedly false statements that led to unjust enrichment to HealthpointCapital and certain directors of the Company. The complaint seeks an unspecified amount of damages and an order directing the Company to adopt certain measures purportedly designed to improve its corporate governance and internal procedures. No assurances can be given as to the timing or outcome of this lawsuit.

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

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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, 2010	2009	Nine Months Ended September 30, 2010	2009
Numerator:				
Loss from continuing operations	$ (3,790)	$ (1,364)	$ (11,557)	$ (12,233)
Income from discontinued operations, net of tax		81	78	264
Net loss	$ (3,790)	$ (1,283)	$ (11,479)	$ (11,969)
Denominator:				
Weighted average common shares outstanding	87,389	52,262	75,880	49,244
Weighted average unvested common shares subject to repurchase	(399)	(746)	(486)	(833)
Weighted average common shares outstanding - basic	86,990	51,516	75,394	48,411
Effect of dilutive securities:				
Options, warrants and restricted share awards				
Weighted average common shares outstanding - diluted	86,990	51,516	75,394	48,411
Net income (loss) per common share:				
Basic and diluted net loss per share from continuing operations	$ (0.04)	$ (0.02)	$ (0.15)	$ (0.25)
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	$ (0.04)	$ (0.02)	$ (0.15)	$ (0.25)

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

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Options to purchase common stock	3,514	2,053	2,216	2,308
Warrants to purchase common stock		474		475
Unvested restricted share awards	399	746	486	833
Total	3,913	3,273	2,702	3,616

10. Stock-Based Compensation and Other Equity Transactions

The Company accounts for stock-based compensation under provisions that 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 accounts for stock option grants to non-employees in accordance with provisions that 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.

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Valuation of Stock Option Awards

The assumptions used to compute the share-based compensation costs for the stock options granted during the three months ended September 30, 2010 and 2009 are as follows:

	Three Months Ended September 30,	
	2010	2009
Employee Stock Options		
Risk-free interest rate	1.87%	2.80%
Expected dividend yield	%	%
Weighted average expected life (years)	6.0	6.2
Volatility	57%	57%

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

Compensation Costs

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of revenues	$ 72	$ 80	$ 195	$ 183
Research and development	(307)	342	24	671
Sales and marketing	364	289	854	637
General and administrative	444	387	1,253	1,072
Total	$ 573	$ 1,098	$ 2,326	$ 2,563
Effect on basic and diluted net loss per share	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.05)

During the three months ended September 30, 2010, the Company recorded a reduction in compensation cost in research and development due to the reduction in fair value for non-employee based awards.

Stock Options

A summary of the Company s stock option activity under its Amended and Restated 2005 Employee, Director and Consultant Stock Plan (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, 2009	2,957	$ 3.94	8.28	$ 4,120

Granted year to date	1,594	$	4.61			
Exercised year to date	(85)	$	4.25			
Forfeited year to date	(411)	$	5.10			
Outstanding at September 30, 2010	4,055	$	4.08	8.11	$	254
Options vested and expected to vest at September 30, 2010	3,421	$	4.13	8.03	$	213
Options vested and exercisable at September 30, 2010	1,472	$	4.43	6.97	$	102

In connection with the acquisition of Scient x, 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, and such optionees were given credit for the vesting of their Scient x options up to the closing date. The Company calculated the fair value of the Scient x options attributable to pre-combination service using the Black-Scholes option pricing model with market assumptions. The fair value of the replacement options that was associated with pre-combination service was included in consideration transferred in the acquisition. The difference between the fair value of the replacement options and the amount included in consideration transferred is being recognized as compensation cost in the Company s post-combination financial statements over the requisite service period. The Company granted 754,838 options, with an exercise price of $6.39, to purchase shares of Alphatec common stock to Scient x optionees.

The weighted-average grant-date fair value of stock options granted during the three and nine months ended September 30, 2010 was $1.22 and $2.58, respectively. The aggregate intrinsic value of options at September 30, 2010 is based on the Company s closing stock price on that date of $2.13 per share.

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As of September 30, 2010, there was $4.5 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 2.6 years. The total intrinsic value of options exercised for the three and nine months ended September 30, 2010 was $0 and 0.3 million. The aggregate intrinsic value of options exercised was immaterial for the three and nine months ended September 30, 2009.

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. At September 30, 2010, approximately 1,371,000 shares of common stock remained available for issuance under the 2005 Plan.

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, 2009	520	$ 5.90	1.29	$ 3,068
Awarded year to date	10	$ 6.68		
Released year to date	(254)	$ 6.14		
Forfeited year to date	(1)	$ 7.58		
Outstanding at September 30, 2010	275	$ 5.69	0.85	$ 1,567

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 nine months ended September 30, 2010 was $6.68. There were no restricted awards granted during the three months ended September 30, 2010. The weighted average fair value per share of awards granted during the three and nine months ended September 30, 2009 was $4.60 and $3.81, respectively.

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 were immediately exercisable, could be exercised through a cashless exercise and had 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 March 2010, 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 196,161 shares of its common stock to the Lender. The net value of the shares issued was $1.2 million. Following this exercise, there were no outstanding warrants to purchase shares of the Company s common stock.

Treasury Stock

On August 31, 2009, pursuant to a settlement agreement with the claimants in a lawsuit filed against the Company, the Company issued 114,766 shares of its common stock, valued at a price per share of $4.35, to the claimants. The resale of such shares was not covered by a registration statement. As required by the settlement agreement, nine months after the issuance, the value of such stock ($0.5 million) was measured against the then-current value of the Company s common stock on such date. The Company performed the measurement calculation on February 28, 2010 using a per share price of the Company s common stock of $5.20, which resulted in the forfeiture of 18,612 shares by the claimants. The

Company recorded the fair value of the forfeited shares of $0.1 million as treasury stock. The Company also reviews the fair value of the $0.5 million equity issuance on a quarterly basis to determine if additional accounting is warranted based on a fluctuation in the Company s stock price. As of September 30, 2010, the Company recorded a fair value adjustment of $0.2 million to decrease litigation expense.

Public Offering of Common Stock

In April 2010, the Company completed a public offering of an aggregate of 18,400,000 shares (16,000,000 primary shares and 2,400,000 shares sold pursuant to the exercise of an over allotment option granted to the underwriters) of its common stock (the Offering). The shares were sold at an offering price of $5.00 per share, less underwriting commissions and discounts. Of the shares of common stock sold in the Offering, 9,200,000 shares were sold by the Company and 9,200,000 were sold by HealthpointCapital Partners, L.P (the Selling Stockholder). The Offering closed on April 21, 2010. The net proceeds to the Company were approximately $43.1 million after deducting underwriting discounts and commissions and expenses payable by the Company. The Company did not receive any proceeds from the sale of shares of common stock by the Selling Stockholder.

The Offering was made pursuant to a prospectus supplement dated April 16, 2010 and the Company s existing shelf registration statement on Form S-3, which was initially filed with the SEC on February 12, 2010 and declared effective by the SEC on April 9, 2010.

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 was made pursuant to a registration statement on Form S-3 and closed on February 12, 2010.

Filing of Registration Statement

On February 12, 2010, the Company filed a registration statement on Form S-3 with the SEC pursuant to which the Company may offer and sell 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. In addition, under such registration statement, HealthpointCapital has registered for resale up to an aggregate of 20,031,646 shares of the Company s common stock. The registration statement was declared effective by the SEC on April 9, 2010.

11. 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 $0.1 million during the three months ended September 30, 2010. The decrease in unrecognized tax benefits during the three months ended September 30, 2010 was primarily related to foreign currency changes related to the uncertain tax positions of the acquired Scient x operations. The unrecognized tax benefits at September 30, 2010 were $3.3 million. It is reasonably possible that $0.3 million of the Company s unrecognized tax benefits could be recognized within the next 12 months.

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

12. 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 three and nine months ended September 30, 2010 the Company operated in four geographic locations, the U.S., Asia, Europe and Rest of World which consists of locations outside of the U.S., Europe and Asia. The Company commenced sales in such Rest of World locations in the second quarter of 2010. During the three and nine months ended September 30, 2009, the Company operated in three geographic locations, the U.S., Europe and Asia. Revenues attributed to the geographic location of the customer were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009

United States	$ 30,010	$ 26,052	$ 87,763	$ 76,243
Europe	5,770	1,036	18,543	2,415
Asia	6,020	3,015	14,265	8,700
Rest of world	3,046		5,021	
Total consolidated revenues	$ 44,846	$ 30,103	$ 125,592	$ 87,358

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

	September 30, 2010	December 31, 2009
United States	$ 211,408	$ 148,735
Europe	166,312	71
Asia	12,673	13,082
Rest of world		
Total consolidated assets	$ 390,393	$ 161,888

13. Related Party Transactions

In connection with the acquisition of Scient x and pursuant to the terms of the share purchase agreement, the consideration paid for 100% of the shares of Scient x was fixed at 24,000,000 shares of the Company s common stock, reduced by a certain number of shares calculated at the closing in exchange for the payment of certain fees and expenses incurred by HealthpointCapital. The aggregate purchase price paid to acquire 100% of the shares of Scient x was 23,730,644 shares of the Company s common stock. The Company paid fees and expenses incurred by HealthpointCapital of $1.6 million. HealthpointCapital and its affiliates held approximately 94.8% of the issued and outstanding shares of Scient x prior to the acquisition. HealthpointCapital received shares of the Company s common stock in connection with the acquisition proportional to its ownership interest in Scient x.

For the nine months ended September 30, 2009, the Company incurred costs of $0.1 million 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. and HealthpointCapital Partners II, L.P., which are the Company s principal stockholders. For the three months ended September 30, 2010 and 2009, and the nine months ended September 30, 2010, the Company did not incur any such costs.

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 months ended September 30, 2010 and 2009, the Company incurred costs of $60,000 in each period for advisory services provided by Dr. Hochschuler. For the nine months ended September 30, 2010 and 2009, the Company incurred costs of $180,000 in each period, for advisory services provided by Dr. Hochschuler.

For the nine months ended September 30, 2009, the Company incurred costs of $0.2 million for legal services paid on behalf of HealthpointCapital, LLC in connection with the Brodke litigation.

14. 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 $0.5 million. The purchaser will pay the Company in installments, 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.

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The amount of IMC Co. revenue and pretax income reported in discontinued operations for the three and nine months ended September 30, 2010 and 2009 is as follows (in thousands):

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue	$	$ 2,574	$ 3,109	$ 8,192
Income from continuing operations before income taxes	$	$ 173	$ 120	$ 562
Income tax provision		92		