

Alphatec Holdings, Inc.
Form 10-Q
August 06, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 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
(State or other jurisdiction of
incorporation or organization)

20-2463898
(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)

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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 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 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

As of August 4, 2010, there were 87,304,747 shares of the registrant's common stock outstanding.

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ALPHATEC HOLDINGS, INC.
QUARTERLY REPORT ON FORM 10-Q

June 30, 2010

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ALPHATEC HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)****(In thousands, except for par value data)**

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 38,408	\$ 10,085
Accounts receivable, net	37,153	24,766
Inventories, net	49,913	29,515
Prepaid expenses and other current assets	5,744	3,128
Deferred income tax assets	1,398	128
Total current assets	132,616	67,622
Property and equipment, net	40,603	30,356
Goodwill	162,098	60,113
Intangibles, net	37,045	2,296
Other assets	2,330	1,501
Total assets	\$ 374,692	\$ 161,888
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 21,242	\$ 12,781
Accrued expenses	21,464	16,439
Deferred revenue	1,299	2,135
Other current liabilities	1,179	
Current portion of long-term debt	10,024	6,724
Total current liabilities	55,208	38,079
Long-term debt, less current portion	24,165	23,631
Other long-term liabilities	2,565	1,008
Deferred income tax liabilities	11,158	738
Redeemable preferred stock, \$0.0001 par value; 20,000 authorized at June 30, 2010 and December 31, 2009; 3,319 shares issued and outstanding at both June 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 June 30, 2010 and December 31, 2009; 87,299 and 52,558 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	9	5
Treasury stock, 19 shares	(97)	
Additional paid-in capital	379,048	175,021
Accumulated other comprehensive income	(12,311)	1,263
Accumulated deficit	(109,149)	(101,460)

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Total Alphatec stockholders' equity	257,500	74,829
Non-controlling interest	493	
Total stockholders' equity	257,993	74,829
Total liabilities and stockholders' equity	\$ 374,692	\$ 161,888

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ALPHATEC HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)****(in thousands, except per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	\$ 45,424	\$ 29,401	\$ 80,746	\$ 57,255
Cost of revenues	16,222	9,451	27,970	18,283
Amortization of acquired intangible assets	369		369	
Gross profit	28,833	19,950	52,407	38,972
Operating expenses:				
Research and development	4,909	3,436	8,596	6,303
In-process research and development	92	4,493	542	5,783
Sales and marketing	17,115	12,272	30,519	24,530
General and administrative	8,007	5,457	13,567	11,321
Amortization of acquired intangible assets	469		469	
Transaction related expenses	493		3,645	
Restructuring expenses	805		1,687	
Total operating expenses	31,890	25,658	59,025	47,937
Operating loss	(3,057)	(5,708)	(6,618)	(8,965)
Other income (expense):				
Interest income	34	12	35	42
Interest expense	(1,444)	(913)	(2,305)	(1,825)
Other income (expense), net	1,101	163	992	(95)
Total other income (expense)	(309)	(738)	(1,278)	(1,878)
Loss from continuing operations before taxes	(3,366)	(6,446)	(7,896)	(10,843)
Income tax (benefit) provision	(265)	(4)	(129)	26
Loss from continuing operations	(3,101)	(6,442)	(7,767)	(10,869)
Income from discontinued operations, net of tax	122	139	78	183
Net loss before non-controlling interest	(2,979)	(6,303)	(7,689)	(10,686)
Net loss attributable to non-controlling interest				
Net loss	\$ (2,979)	\$ (6,303)	\$ (7,689)	\$ (10,686)
Net income (loss) per common share:				
Basic and diluted net loss per share from continuing operations	\$ (0.04)	\$ (0.13)	\$ (0.11)	\$ (0.23)
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)	\$ (0.13)	\$ (0.11)	\$ (0.23)

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Weighted-average shares used in computing net income (loss) per share:				
Basic and diluted	84,675	47,157	69,500	46,832

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ALPHATEC HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)****(in thousands)**

	Six Months Ended June 30,	
	2010	2009
Operating activities:		
Net loss	\$ (7,689)	\$ (10,686)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,837	5,498
Stock-based compensation	1,753	1,465
Interest expense related to amortization of debt discount and debt issuance costs	444	297
In-process research and development paid in stock		3,013
Provision for (recoveries from) doubtful accounts	731	(25)
Provision for excess and obsolete inventory	1,043	506
Gain on sale of property and equipment		(20)
Gain on sale of IMC Co. (discontinued operations)	(188)	
Deferred income taxes	(185)	82
Changes in operating assets and liabilities:		
Accounts receivable	(275)	(5,268)
Inventories	(8,785)	(4,212)
Prepaid expenses and other current assets	(1,382)	49
Other assets	56	425
Accounts payable	(3,289)	287
Accrued expenses and other	(483)	3,648
Deferred revenues	(836)	1,007
Net cash used in operating activities	(11,248)	(3,934)
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	(6,073)	(6,648)
Purchase of intangible asset	(500)	
Net cash used in investing activities	(4,655)	(6,265)
Financing activities:		
Exercise of stock options	194	
Net proceeds from issuance of common stock	49,659	9,884
Borrowings under lines of credit	1,610	3,868
Repayments under lines of credit	(1,796)	(755)
Principal payments on capital lease obligations	(96)	(197)
Principal payments on notes payable	(4,792)	(893)
Net cash provided by financing activities	44,779	11,907
Effect of exchange rate changes on cash and cash equivalents	(553)	(292)
Net increase in cash and cash equivalents	28,323	1,416
Cash and cash equivalents at beginning of period	10,085	18,315

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Cash and cash equivalents at end of period	\$ 38,408	\$ 19,731
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See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(UNAUDITED)

(in thousands)

	Six Months Ended June 30,	
	2010	2009
Supplemental cash flow information:		
Cash paid for interest	\$ 1,577	\$ 1,182
Cash paid for income taxes	114	153
Purchases of property and equipment in accounts payable	7,254	3,135
Financing of software and support by software provider	872	
Financing of insurance premiums by insurance provider	406	301
Issuance of common stock in acquisition of Scient x	151,639	
Non-cash exercise of warrants	540	

See accompanying notes to unaudited condensed consolidated financial statements.

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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) is a medical device company that designs, develops, manufactures and markets products for the surgical treatment of spine disorders, with a focus on treating conditions related to the aging spine. Alphatec Holdings' principal operating activities are conducted through Alphatec Spine and its wholly owned and consolidated subsidiaries, Alphatec Pacific, Inc. (Alphatec Pacific), a Japanese corporation and Milverton Limited, a Hong Kong corporation.

On March 26, 2010, the Company completed its acquisition of Scient x S.A. (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 six months ended June 30, 2010 do not include the results of Scient x for the first quarter of 2010 as the Company determined that Scient x's results of operations for the five days from the acquisition date, March 26, 2010, to the fiscal quarter end were immaterial to the Company's first quarter 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 six months ended June 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 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 six months ended June 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 results of operations for 2010 include the results of operations of Scient x commencing with the second quarter of 2010.

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 \$38.4 million and available credit of \$2.4 million at June 30, 2010 will be sufficient to fund its cash requirements through at least June 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 (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

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have been revised under the amended 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 increases from the second quarter 2010 to the third quarter 2010 and is

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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. The Company expects that it will be in compliance with its covenants throughout 2010, and was in compliance with such covenants as of June 30, 2010. In addition to the minimum fixed charge covenant described above, there are other clauses including subjective clauses that would allow the Lenders to declare the loan immediately due and payable (See Note 7). Upon the occurrence of an event of default under the Amended Credit Facility, the Lenders could elect to declare all amounts outstanding under the Amended Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. If the Lenders were to accelerate the repayment of borrowings under the Amended Credit Facility for any reason, the Company may not have sufficient cash on hand to repay the amounts borrowed under the Amended Credit Facility.

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. These accounting policies have not significantly changed during the six months ended June 30, 2010.

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 Company does not expect adoption to have a material impact on the Company's financial position or results of operations.

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.

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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 estimated 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 March 31, 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		\$ 3,821
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		111,032
 Total preliminary estimate purchase price allocation		 \$ 154,297

A preliminary estimate of \$3.8 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 \$111.0 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.

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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.

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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 for the three months ended June 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	(1,492)
Effect of foreign exchange rate on goodwill	(9,066)
Balance at June 30, 2010	\$ 101,966

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		Six Months Ended	
	June 30, 2010	2009	June 30, 2010	2009
Revenues	\$ 45,424	\$ 41,425	\$ 92,081	\$ 80,265
Loss from operations	(1,759)	(9,244)	(2,442)	(16,116)
Net loss	(1,681)	(9,841)	(2,839)	(16,623)
Net loss per share, basic and diluted	\$ (0.02)	\$ (0.14)	\$ (0.04)	\$ (0.24)

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 dates 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 six months ended June 30, 2010, the Company incurred transaction costs related to the acquisition of Scient x of \$0.5 million and \$3.6 million, respectively. These costs were expensed as incurred.

For the three and six months ended June 30, 2010, the Company incurred restructuring charges related to the acquisition of \$0.8 million and \$1.7 million, respectively. These costs consist of severance payments and severance-related benefits associated with the termination of certain Scient x employees based in the United States, rent and other expenses for facilities and the cost of exiting two terminated European distributor agreements. The restructuring expenses are due to the consolidation of Scient x s U.S. business into the Company s operations in Carlsbad, California.

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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.

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Accounts receivable consist of the following (in thousands):

	June 30, 2010	December 31, 2009
Accounts receivable	\$ 38,104	\$ 25,084
Allowance for doubtful accounts	(951)	(318)
Accounts receivables, net	\$ 37,153	\$ 24,766

Inventories

Inventories consist of the following (in thousands):

	June 30, 2010			December 31, 2009		
	Gross	Reserve for excess and obsolete	Net	Gross	Reserve for excess and obsolete	Net
Raw materials	\$ 4,852	\$	\$ 4,852	\$ 2,866	\$	\$ 2,866
Work-in-process	3,081		3,081	1,644		1,644
Finished goods	56,945	(14,965)	41,980	33,650	(8,645)	25,005
Inventories, net	\$ 64,878	\$ (14,965)	\$ 49,913	\$ 38,160	\$ (8,645)	\$ 29,515

Property and Equipment

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

	Useful lives (in years)	June 30, 2010	December 31, 2009
Surgical instruments	4	\$ 49,441	\$ 35,286
Machinery and equipment	7	10,422	9,684
Computer equipment	5	2,610	2,575
Office furniture and equipment	5	3,533	3,128
Leasehold improvements	various	3,336	3,355
Building	39	207	201
Land	n/a	15	15
Construction in progress	n/a	1,182	368
		70,746	54,612
Less accumulated depreciation and amortization		(30,143)	(24,256)
Property and equipment, net		\$ 40,603	\$ 30,356

Total depreciation expense was \$3.2 million and \$2.1 million for the three months ended June 30, 2010 and 2009, respectively and \$5.9 million and \$3.9 million for the six months ended June 30, 2010 and 2009, respectively.

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The Company has assets under capital leases of \$3.3 million and \$3.1 million at June 30, 2010 and December 31, 2009, respectively. Accumulated depreciation on these assets totaled \$2.7 million and \$2.5 million at June 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 June 30, 2010 and 2009 and \$0.2 million for both the six months ended June 30, 2010 and 2009, respectively.

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

	Useful lives (in years)	June 30, 2010	December 31, 2009
Developed product technology	5-8	\$ 22,457	\$ 13,700
Distribution rights	3	2,466	3,737
Intellectual property	5	1,004	1,004
License agreements	1-7	850	350
Core technology	10	3,330	
In-process technology	Indefinite	1,603	
Trademarks and trade names	5-9	3,530	
Customer-related	15	14,675	
Distribution network	10	1,480	
Physician education programs	10	2,836	
Supply agreement	10	225	225
		54,456	19,016
Less accumulated amortization		(17,411)	(16,720)
Intangible assets, net		\$ 37,045	\$ 2,296

Total amortization expense was \$1.0 million and \$0.8 million for the three months ended June 30, 2010 and 2009, respectively and \$2.0 million and \$1.6 million for the six months ended June 30, 2010 and 2009, respectively.

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

NET INCOME (LOSS)	3,998,155	171,929	6,376,556	2,631,568		
40160000	NET INCOME	1,115,504	354,730	1,092,107	242,316	
	(LOSS)					
	ATTRIBUTABLE					
	TO					
	NON-CONTROLLING					
	INTEREST					
40170000	NET INCOME	2,882,651	-182,801	5,284,449	2,389,252	
	(LOSS)					
	ATTRIBUTABLE					
	TO CONTROLLING					
	INTEREST					
40180000	NET INCOME	1.00	-0.06	1.85	0.84	
	(LOSS) PER BASIC					
	SHARE					
40190000	NET INCOME	0.93	-0.06	1.71	0.77	
	(LOSS) PER					
	DILUTED SHARE					

STATEMENTS OF COMPREHENSIVE INCOME
OTHER COMPREHENSIVE INCOME (NET OF INCOME TAXES)
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(THOUSANDS OF MEXICAN PESOS)
CONSOLIDATED

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		CUMULATIVE	QUARTER	CUMULATIVE	QUARTER
40200000	NET INCOME (LOSS)	3,998,155	171,929	6,376,556	2,631,568
	ITEMS NOT TO BE RECLASSIFIED INTO RESULTS				
	EARNINGS PER PROPERTY				
40210000	REASSESSMENT	0	0	0	0
	ACTUARIAL EARNINGS (LOSS) FOR				
40220000	LABOR OBLIGATIONS	0	0	0	0
	PARTICIPATION IN RESULTS FOR				
40220100	REVALUATION OF PROPERTIES OF ASSOCIATES AND JOINT VENTURES	0	0	0	0
	ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED INTO RESULTS				
	RESULT FOR FOREIGN CURRENCY				
40230000	CONVERSION	1,036	29,741	87,050	53,034
	CHANGES IN THE VALUATION OF				
40240000	AVAILABLE FOR SALE FINANCIAL ASSETS	1,094,188	500,578	433,726	-151,525
	CHANGES IN THE VALUATION OF				
40250000	DERIVATIVE FINANCIAL INSTRUMENTS	-20,552	74,214	-2,704	-26,289
	CHANGES IN FAIR VALUE OF OTHER				
40260000	ASSETS	696,540	647,646	-218,620	9,665
	PARTICIPATION IN OTHER				
40270000	COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES	5,004	7,721	110,726	75,599
40280000	OTHER COMPREHENSIVE INCOME	0	0	0	0
	TOTAL OTHER COMPREHENSIVE				
40290000	INCOME	1,776,216	1,259,900	410,178	-39,516
40300000	COMPREHENSIVE INCOME (LOSS)	5,774,371	1,431,829	6,786,734	2,592,052
	COMPREHENSIVE (LOSS)				
40320000	ATTRIBUTABLE TO NON-CONTROLLING INTEREST	1,104,658	347,899	1,094,878	247,587
	COMPREHENSIVE (LOSS)				
40310000	ATTRIBUTABLE TO CONTROLLING INTEREST	4,669,713	1,083,930	5,691,856	2,344,465

STATEMENTS OF COMPREHENSIVE INCOME
 DATA INFORMATION
 FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
 (THOUSANDS OF MEXICAN PESOS)
 CONSOLIDATED

REF	ACCOUNT / SUBACCOUNT	Final Printing			
		CURRENT YEAR		PREVIOUS YEAR	
		CUMULATIVE	QUARTER	CUMULATIVE	QUARTER
92000010	OPERATING DEPRECIATION AND AMORTIZATION	8,181,297	2,848,974	7,278,088	2,490,282

STATEMENTS OF COMPREHENSIVE INCOME
 DATA INFORMATION (TWELVE MONTHS)
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
 (THOUSANDS OF MEXICAN PESOS)
 CONSOLIDATED

REF	ACCOUNT / SUBACCOUNT	Final Printing	
		CURRENT	YEAR PREVIOUS
92000030	NET INCOME (**)	77,541,211	72,140,103
92000040	OPERATING INCOME (LOSS) (**)	13,728,810	18,742,843
92000050	CONTROLLING INTEREST NET INCOME (LOSS) (**)	7,855,726	9,481,710
92000060	NET INCOME (LOSS) (**)	5,346,481	8,282,526
92000070	OPERATING DEPRECIATION AND AMORTIZATION (**)	10,749,575	9,577,702

(**) INFORMATION FOR THE LAST TWELVE MONTHS

STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013
(THOUSANDS OF MEXICAN PESOS)

CONSOLIDATED
Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR AMOUNT	PREVIOUS YEAR AMOUNT
OPERATING ACTIVITIES			
50010000	INCOME (LOSS) BEFORE INCOME TAXES	5,665,043	9,322,010
50020000	+ (-) ITEMS NOT REQUIRING CASH	897,156	723,191
50020010	+ ESTIMATES FOR THE PERIOD	795,241	623,999
50020020	+ PROVISIONS FOR THE PERIOD	0	0
50020030	+ (-) OTHER UNREALIZED ITEMS	101,915	99,192
50030000	+ (-) ITEMS RELATED TO INVESTING ACTIVITIES	11,900,620	8,014,526
50030010	+ DEPRECIATION AND AMORTIZATION FOR THE PERIOD	8,181,297	7,278,088
50030020	(-) + GAIN OR LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT	304,994	161,588
50030030	+ (-) LOSS (REVERSION) IMPAIRMENT	0	0
50030040	(-) + EQUITY IN RESULTS OF AFFILIATES AND JOINT VENTURES	(47,539)	923,189
50030050	(-) DIVIDENDS RECEIVED	0	0
50030060	(-) INTEREST INCOME	(255,629)	(30,825)
50030070	(-) FOREIGN EXCHANGE FLUCTUATION	(612,265)	(468,762)
50030080	(-) + OTHER ITEMS	4,329,762	151,248
50040000	+ (-) ITEMS RELATED TO FINANCING ACTIVITIES	5,428,758	4,749,028
50040010	(+) ACCRUED INTEREST	4,056,896	3,503,812
50040020	(+) FOREIGN EXCHANGE FLUCTUATION	1,258,396	650,211
50040030	(+) FINANCIAL OPERATIONS OF DERIVATIVES	(738,756)	157,560
50040040	+ (-) OTHER ITEMS	852,222	437,445
50050000	CASH FLOW BEFORE INCOME TAX	23,891,577	22,808,755
50060000	CASH FLOWS PROVIDED OR USED IN OPERATION	(7,601,960)	(10,534,151)
50060010	+ (-) DECREASE (INCREASE) IN CUSTOMERS	7,560,554	7,652,870
50060020	+ (-) DECREASE (INCREASE) IN INVENTORIES	(1,000,740)	(3,417,809)
50060030	+ (-) DECREASE (INCREASE) IN OTHER ACCOUNTS RECEIVABLES AND OTHER ASSETS	(1,317,493)	(2,440,346)
50060040	+ (-) INCREASE (DECREASE) IN SUPPLIERS	1,370,046	221,067
50060050	+ (-) INCREASE (DECREASE) IN OTHER LIABILITIES	(11,686,897)	(8,252,067)
50060060		(2,527,430)	(4,297,866)

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	+ (-) INCOME TAXES PAID OR RETURNED		
50070000	NET CASH FLOWS FROM OPERATING ACTIVITIES	16,289,617	12,274,604
INVESTING ACTIVITIES			
50080000	NET CASH FLOWS FROM INVESTING ACTIVITIES	(15,804,526)	(17,978,269)
50080010	(-) PERMANENT INVESTMENTS IN SHARES	(9,361)	(1,352,968)
50080020	+ DISPOSITION OF PERMANENT INVESTMENT IN SHARES	0	0
50080030	(-) INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT	(9,990,264)	(8,627,115)
50080040	+ SALE OF PROPERTY, PLANT AND EQUIPMENT	415,013	82,193
50080050	(-) TEMPORARY INVESTMENTS	(1,058,282)	(420,060)
50080060	+ DISPOSITION OF TEMPORARY INVESTMENTS	434,700	2,278,985
50080070	(-) INVESTMENT IN INTANGIBLE ASSETS	(151,146)	(446,419)
50080080	+ DISPOSITION OF INTANGIBLE ASSETS	0	0
50080090	(-) BUSINESS ACQUISITIONS	0	