Alphatec Holdings, Inc.
Form 10-K
March 05, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Form 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 000-52024

ALPHATEC HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

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

(760) 431-9286

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Exchange Act: None

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) based on the last reported sale price of the common stock on June 30, 2011 was approximately $192.0 million.

The number of outstanding shares of the registrant s common stock, par value $0.0001 per share, as of February 29, 2012 was 89,592,795.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant s Proxy Statement for the 2012 Annual Meeting of Stockholders.

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ALPHATEC HOLDINGS, INC.

FORM 10-K ANNUAL REPORT

For the Fiscal Year Ended December 31, 2011

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PART I

Item 1. Business

We are a Delaware corporation. We were incorporated in March 2005. Our principal executive office is located at 5818 El Camino Real, Carlsbad, California 92008. In this Annual Report on Form 10-K, the terms we, us, our, Alphatec Holdings and Alphatec mean Alphatec Holdings, Inc. and our subsidiaries. Alphatec Spine refers to our wholly-owned operating subsidiary Alphatec Spine, Inc. and Scient x refers to our wholly-owned operating subsidiary, Scient x S.A.S., and its subsidiaries.

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

Overview

We are a medical technology company focused on the design, development, manufacturing and marketing of products for the surgical treatment of spine disorders, with a focus on products that treat conditions that affect the aging spine. We have a comprehensive product portfolio and pipeline that addresses the cervical, thoracolumbar and intervertebral regions of the spine and covers a variety of major spinal disorders and procedures. Our principal product offerings are focused on the global market for orthopedic spinal disorder solutions. Our surgeons culture emphasizes collaboration with spinal surgeons to conceptualize, design and co-develop a broad range of products. We have a state-of-the-art, in-house manufacturing facility that provides us with a unique competitive advantage, and enables us to rapidly deliver solutions to meet surgeons and patients critical needs. We believe that our products and systems have enhanced features and benefits that make them attractive to surgeons and that our broad portfolio of products and systems provide a comprehensive solution for the safe and successful surgical treatment of spine disorders. All of our implants that are sold in the U.S. that require U.S. Food and Drug Administration, or FDA, clearance have been cleared by the FDA.

Strategy

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

The key elements of our strategy are:

Provide a Full Range of Spine Disorder Products and Continually Expand our Product Offerings. We offer a full range of spinal devices and surgical instruments used to treat spine disorders. We believe that this comprehensive approach enables us to maximize our revenue for each procedure by fulfilling a greater

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portion of a surgeon s spine product needs. We intend to continue to enhance our product offerings by developing technologies that we can market through our sales organization to our established surgeon base and surgeons not yet using our products.

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

Enhance U.S. Sales and Marketing Efforts. Our products are sold in the U.S. through a network of over 115 independent distributors, which we believe employ approximately 275 sales representatives. We also employ 30 direct sales representatives and sales management employees and executives. We continually seek to increase the number and quality of our independent distributors, direct sales representatives, sales management employees and executives.

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

Grow our International Business. As the result of our acquisition of Scient x, which transaction closed in March 2010, we now have an established global platform from which we can grow internationally. In addition to our previously existing subsidiaries in Japan and Hong Kong, as a result of the Scient x acquisition we added a direct sales force in each of France, Italy and the U.K., and independent distributors in Europe, South America, the Middle East, Africa, Asia and Latin America. We plan to continue expanding our distribution network and product offerings throughout the world.

Spine Anatomy

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

Disorders Affecting the Spine

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

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Some of the most common degenerative conditions and deformities affecting the spine are as follows:

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

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

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

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

The Alphatec Solution

Our principal product offering includes a wide variety of spinal implant products and systems comprised of components such as spine screws and rods, spinal spacers, plates, and various biologics offerings. In addition, outside of the U.S. we sell solutions for treating vertebral compression fractures and spinal stenosis. Certain of our biologics offerings are used as an alternative to synthetic products while others complement our synthetic products by promoting fusion.

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The chart below illustrates our broad portfolio of currently marketed spine systems and our systems under development by market segment. Certain systems and products are described in greater detail below the chart. Items marked with an asterisk are not available for sale in the U.S.

Current Products:

Market Segment	Key Products
Cervical and Cervico-thoracic	Trestle Anterior Cervical Plate
	Trestle Luxe Anterior Cervical Plate
	Solanas Posterior Cervico/Thoracic Fixation System
	Avalon Occipital Plate
	DiscoCerv Artificial Disc*
	PCB Evolution*
Thoracolumbar Fixation	Zodiac Degenerative Fixation System
	Zodiac Deformity Fixation System with Smart Set
	TTL IN Fixation System
	Xenon Fixation System
	Isobar Evolution Dynamic Rod*
	Aspida Anterior Lumbar Interbody Plate System
	TTL-D Fixation System*
	Hemi Fixation System
Spinal Spacers	Novel Spinal Spacers
	Alphatec Solus Locking ALIF Spacer
	Samarys*/Samarys RF*
	TeCorp*
Minimally Invasive Surgery (MIS)	Illico MIS System
	GLIF/ARC Portal Access System
	OsseoScrew MIS System*
	Epicage TLIF System
Aging Spine	OsseoFix Spinal Fracture Reduction System*
	OsseoFix+ Vertebroplasty System

	OsseoScrew Spinal Fixation System*
	HeliFix Interspinous Spacer System*
Biologics	AlphaGraft Structural Allograft Spacers
	AlphaGraft Demineralized Bone Matrix
	PureGen Osteoprogenitor Cell Allograft
	AlphaGraft ProFuse Demineralized Bone Scaffolds
	AmnioShield Amniotic Membrane
	AlphaGUARD Anterior Vessel Guard

Products in Development (None of the following products are currently available for sale):

Market Segment	**Key Products**
Cervical and Cervico-thoracic	Preview Anterior Cervical Plate
Thoracolumbar	Next-Generation Degenerative and Deformity Fixation Systems
MIS	Raptor Facet Fixation System
Aging Spine	OsseoFix Next-Generation Implant

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Cervical and Cervico-Thoracic Products

Trestle Luxe Anterior Cervical Plate System

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

Solanas Posterior Cervico/Thoracic Fixation System and Avalon Occipital Plate

Our Solanas Posterior Cervico/Thoracic Fixation System consists of rods, polyaxial screws, hooks, and connectors that provide a solution for posterior cervico/thoracic fusion procedures. We also designed the Solanas Posterior Cervico/Thoracic System to be used in combination with our existing Zodiac Degenrative Fixation System and our Avalon Occipital Plate, thereby providing surgeons with a solution for occipito-cervico-thoracic fixation. The Avalon Occipital Plate has a unique buttress design for optimal bone graft placement and superior fusion, including three points of plate rotation and translation, which is designed to ease the placement of the plate.

Thoracolumbar Fixation Products

Zodiac Degenerative Fixation System

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

Zodiac Deformity Fixation System with Smart Set

Our Zodiac Smart Set Deformity Fixation System is a comprehensive system of instrumentation and implants designed to enable the surgeon to address patient-specific spinal deformity procedures. Our Zodiac Smart Set is designed to be used in conjunction with the Zodiac Deformity Fixation System, as well as many of our other products, including our Zodiac Degenerative Fixation System, our Novel Spinal Spacers and our AlphaGraft Structural Allograft Spacers. Our Zodiac Smart Set has several components that are frequently used in deformity surgeries, such as fixed and uniplanar screws, rods in multiple alloys, hooks, connectors and deformity specific instrumentation.

Aspida Anterior Lumbar Interbody Fusion, or ALIF, Plate System

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

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Spinal Spacers

Novel PEEK and Titanium Spinal Spacers

Our family of Novel spacers addresses the surgical need to accommodate varying patient anatomies, surgical approaches and composite material options. We offer multiple unique implant designs, each of which is available in numerous shapes and heights. Certain of our Novel spacers are made of titanium and others are made of a strong, heat resistant, radiolucent, biocompatible plastic called polyetheretherketone, or PEEK. Our Novel PEEK spinal spacers have been approved for use in both the lumbar and cervical regions of the spine. A PEEK spacer is not visible during a magnetic resonance imaging, which allows the surgeon to better assess the progress of the healing process following surgery. Novel spacers and their accompanying instrumentation are designed to be inserted from several planes of the body to accommodate surgeons needs. Novel spacers feature sizable central openings that help accommodate the placement of bone grafting material inside and around the spacer, which we believe promotes fusion. A ridge pattern on the top and bottom of our Novel spacers helps prevent movement after placement and enhances the stability of the overall construct.

Alphatec Solus Locking ALIF Spacer

Our Alphatec Solus locking spinal spacer is a zero-profile PEEK and titanium device offering four points of fixation for improved stability. Alphatec Solus features a one-step insertion and deployment feature and is used in ALIF procedures. We believe that Alphatec Solus locking mechanism is a substantial upgrade over similar products currently on the market.

Minimally Invasive Surgery, or MIS Products

Illico Minimally Invasive Surgery System

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

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

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

Aging Spine

OsseoFix Spinal Fracture Reduction System

Our OsseoFix system provides a solution for VCF indications. The OsseoFix implant is an expandable titanium cage that is designed to be implanted in a minimally invasive manner into a vertebral body to treat a VCF. The OsseoFix system is designed to provide the surgeon with control over the placement and expansion of the device as the fracture is treated. In addition, the OsseoFix system is designed to use less PMMAbone cement than current standards of care and may overcome one of the primary complications of kyphoplasty and vertebroplasty, which is the potential risk of extravasation of PMMA bone cement into the spinal canal or venous system. In early 2012, the Company filed an Investigational Device Exemption with the U.S. FDA to begin a clinical study of the OsseoFix System. The OsseoFix System is available for sale in the European Union.

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OsseoScrew Spinal Fixation System

The OsseoScrew Spinal Fixation is an innovative pedicle screw system that is designed to provide a solution for patients who have poor bone density. The OsseoScrew is designed to be implanted into the pedicle and then expanded after implementation to achieve increased screw fixation in bone with poor density. We believe that the OsseoScrew Spinal Fixation System will help us reach our goal of providing solutions targeted at serving the needs of the spine surgeon and the aging spinal segment of the marketplace. The OsseoScrew System is not available for sale in the U.S. The OsseoScrew Spinal Fixation System is available for sale in the European Union.

Helifix Interspinous Spacer System

Our Helifix Interspinous Spacer System is designed to be inserted in a minimally invasive manner into a patient s spinous process to treat lumbar spinal stenosis. Helifix is a non-fusion interspinous device designed to provide relief from lumbar spinal stenosis by widening the spinal canal and decompressing the level of the compressed nerve, providing flexion in the posterior elements. The Helifix Interspinous Spacer System is not available for sale in the U.S. The Helifix Interspinous Spacer System is available for sale in the European Union.

Biologics

AlphaGraft Structural Allograft Spacers

We offer a broad portfolio of allograft spacers available in a wide range of shapes and sizes, each with corresponding instrumentation, which are intended for use in the cervical, thoracic, and lumbar regions of the spine. In addition, many of our allograft spacers are packaged in our VIP packaging system. VIP is a packaging and fluid delivery system that allows for fast and efficient infusion of the surgeon s choice of hydration fluid. The VIP system provides rapid and uniform hydration reducing the brittleness of the graft and reducing the length of a surgical procedure.

PureGen Osteoprogenitor Cell Allograft

Our PureGen Osteoprogenitor Cell Allograft is a unique adult stem cell that supplements the body s own cells and helps to stabilize the repair site allowing the healing process to advance naturally and efficiently. There is a significant clinical need to improve fusion rates, especially in patients with impaired wound healing due to age, obesity, diabetes, smoking, anti-inflammatory meds, and other factors. PureGen is a safe and natural alternative to autograft, and other expensive fusion options.

AlphaGraft ProFuse Demineralized Bone Scaffold

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

Amnioshield Amniotic Tissue Barrier

Our Amnioshield Amniotic Tissue Barrier is an allograft for spinal surgical barrier applications. The composite amniotic membrane reduces inflammation and enhances healing at the surgical site, reduces scar tissue formation and provides an excellent dissection plane.

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Alphagraft Demineralized Bone Matrix

Our Alphagraft Demineralized Bone Matrix consists of demineralized human tissue that is mixed with a bioabsorbable carrier and used in surgery for bone grafting.

Sales and Marketing

Our U.S. sales force consists of over 115 independent distributors, which we believe employ approximately 275 agents dedicated to selling our products in the U.S., and 30 direct sales representatives and sales management employees and executives. In general, in the U.S., although surgeons in the U.S. make the ultimate decision to use our products, we bill hospitals for the products that are used and pay commissions to our independent distributors and direct sales agents based on payments received from hospitals. In general, outside of the U.S. we sell products directly to distributors, and the distributors resell the products to hospitals. We compensate our sales management employees and sales executives through salaries and incentive bonuses based on performance measures. We select our sales force based on their expertise in selling spinal devices, reputation within the surgeon community, geographical coverage and established sales network. Increasingly, we contractually require our distributors to exclusively sell our products both within and outside of their allocated sales territory. We offer sales and product training to each of our independent distributors and direct sales representatives. We market our products at various industry conferences, organized surgical training courses, and in industry trade journals and periodicals. We plan on expanding our global sales coverage through the use of additional distributors and direct sales representatives in order to support continued adoption of our products by new surgeons and increased use of our products by surgeons who currently use our products.

In France, Italy and the U.K. we have a direct sales force consisting of approximately 20 direct sales representatives, and in the rest of Europe we have approximately 50 independent distributors. We have 15 direct sales representatives in Japan and 11 independent distributors in the rest of Asia. In Latin America and South America we conduct our sales and marketing activities through our subsidiary, Cibramed Products Medicos Ltda., which we plan to rename Alphatec Spine do Brazil. Currently, we have 5 sales and marketing employees in Latin America and South America, and 12 independent distributors selling our products in Latin America and South America.

In the markets in which we have a direct sales force, we bill the hospitals for the products that are used. In markets that use independent distributors, we sell our products to the distributor, and the distributor resells the products to the hospital. We plan to continue expanding our direct sales and distribution network and product offerings throughout the world. Similar to our sales and marketing activities in the U.S., outside of the U.S. we market our products at various international industry conferences, organized surgical training courses, and in industry trade journals and periodicals. In addition, we host several international educational conferences, including the International Spine Research and Innovation and Argos and Sisyphean Spinal Society meetings, in the United States, Europe, Asia and Latin America and South America.

Surgeon Training and Education

We devote significant resources to train and educate surgeons in the proper use of our implants, instrumentation, and surgical access technologies. We believe that one of the most effective ways to introduce and build market demand for our products is by training and educating spine surgeons, independent distributors, and direct sales representatives in the benefits and use of our products. We believe that surgeons, independent distributors, and direct sales representatives will become exposed to the merits and distinguishing features of our products through our training and education programs, and in doing so, will increase the use and promotion of our products.

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Research and Development

Our research and development department has extensive experience in developing products to treat spine pathologies. Our research and development department works closely with our Scientific Advisory Board and surgeon collaborators to design products that are intended to improve patient care, simplify surgical techniques and reduce overall costs. We are focusing our research and development efforts in two major strategic areas. First, we focus on continually enhancing and upgrading our current product portfolio and supplementing it with new products where appropriate. Second, we devote significant resources to developing complementary products and unique technologies to create new solutions to address spinal pathologies that affect the aging spine. Our goal is to become the market leader in providing solutions for the aging spine by developing products that have superior efficacy for patients who suffer from conditions that disproportionally affect the aging spine, such as poor bone density, VCFs, adult deformity or scoliosis, degenerative disc disease and spinal stenosis. We also plan to continue development programs initiated by Scient x for developing and commercializing semi-rigid technologies for dynamic fusion, cervical disc arthroplasty and minimally invasive access techniques. In order to further promote this strategy, we are focused on converting these research and development programs into commercially viable products that incorporate minimally invasive access techniques and biologics solutions to improve patient outcomes across all of our product lines.

Manufacture and Supply

We conduct a large portion of our manufacturing operations at our facilities in Carlsbad, California, although we also manufacture products at our facility in Beaurains, France. We manufacture a significant amount of our non-biologic implants in-house. Certain of our implants and a significant amount of our instrumentation are purchased from third parties. We believe that the in-house production of our implants maximizes efficiency, reduces product development time, simplifies production scheduling, reduces inventory backlogs and is more responsive to the changing needs of surgeons. Our facilities include distinct areas dedicated to the machinery, tooling, quality control, cleaning and labeling of our products. Additionally, we have an advanced manufacturing group that includes design engineering and manufacturing personnel. The advanced manufacturing group is dedicated to providing rapid prototyping and innovative custom instrumentation for our research and development programs and our surgeon customers.

We devote significant time and attention to ensure that all of our products are safe, effective, adhere to all applicable regulations and are of the highest quality. An established and comprehensive quality system drives our focus from the initial translation of surgeon needs into design specifications through an exhaustive series of quality control checks that are performed through the purchasing, production, and packaging of our products. We record the complete production history for every product, ensuring full traceability from the raw material stage through the delivery of the product into the marketplace.

Following the receipt of products or product components that we receive from third parties, we conduct inspection, quality control, packaging and labeling, as needed, at our manufacturing facilities. The raw materials used in the manufacture of our products are principally titanium, titanium alloys, stainless steel, cobalt chrome, ceramic, allograft and PEEK. Invibio is one of a limited number of companies that is currently approved in the U.S. to distribute PEEK for use in implantable devices.

With the exception of PEEK and allograft-based products, none of our raw material requirements is limited to any significant extent by critical supply. We are subject to the risk that Invibio will fail to supply PEEK in adequate amounts for our needs on a timely basis. In addition, because our biologics products are processed from human tissue, maintaining a steady supply can sometimes be challenging. See Item 1A Risk Factors. Our manufacturing operations and those of the third-party manufacturers we use are subject to extensive regulation by the FDA or similar entities outside of the U.S. under its quality systems regulations, or QSRs, and other applicable device-related good manufacturing practices, or GMPs, or tissue-related tissue practices, or GTPs, and applicable local regulations. With respect to biologics products, we are FDA-registered and licensed in the states of California, New York and Florida, the only states that currently require licenses. Our facility and the facilities

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of the third-party manufacturers we use are subject to periodic unannounced inspections by regulatory authorities, and may undergo compliance inspections conducted by the FDA and corresponding state and foreign agencies. The FDA inspected our Carlsbad, California facilities in February 2010 and non-compliance items were cited on an FDA Form 483 that we received following the inspection. On June 24, 2010 we received a Warning Letter from the Irvine District office of the FDA. The Warning Letter related specifically to non-conformances in quality systems previously identified in the Form 483 that was issued following the February inspection. We have responded to the Warning Letter and completed corrective actions that we believe fully address the observations. Subsequent to a follow-up audit of our Carlsbad, California facility in December 2010, the FDA issued a close-out letter dated September 28, 2011 in which the FDA stated that the Company has resolved all the deficiencies contained in the Warning Letter.

Competition

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

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

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

Our competitors include providers of non-operative therapies for spine disorder conditions. While these non-operative treatments are considered to be an alternative to surgery, surgery is used in the event that non-operative treatments are unsuccessful. We do not believe that, to date, these

non-operative treatments have caused a material reduction in the demand for surgical treatment of spinal disorders.

Intellectual Property

We rely on a combination of patent, trademark, copyright, trade secret and other intellectual property laws, nondisclosure agreements, proprietary information ownership agreements and other measures to protect our intellectual property rights. We believe that in order to have a competitive advantage, we must develop, maintain and enforce the proprietary aspects of our technologies. We require our employees, consultants, co-developers,

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distributors and advisors to execute agreements governing the ownership of proprietary information and use and disclosure of confidential information in connection with their relationship with us. In general, these agreements require these people and entities to agree to disclose and assign to us all inventions that were conceived on our behalf or which relate to our property or business and to keep our confidential information confidential and only use such confidential information in connection with our business.

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

Patents

As of December 31, 2011, we owned 58 issued U.S. patents, 31 pending U.S. patent applications and 341 issued or pending foreign patents. We own multiple patents relating to unique aspects and improvements for several of our products. We do not believe that the expiration of any single patent is likely to significantly affect our intellectual property position.

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

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

If we are accused of patent infringement, we may be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all. Even if we were able to obtain rights to the third party s intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize some of our potential products or may have to cease some of our business operations as a result of patent infringement claims, which could severely harm our business financial condition and results of operations.

Trademarks

As of December 31, 2011, we owned these registered US marks: Adonys, Aging Spine Center design/logo, Aladyn, Alpha symbol design/logo, Alphagraft, Alphagraft Duofuse, Alphagraft Nanoblast, Alphagraft Profuse, Alphatec, Alphatec Spine, Inc. logo, Alphatec Spine design/logo, Amnioshield, Antelys, ARC, Aspida, Aurys, Biofill, Bone x, Calisto, Cerviplaque, Chorus, Claris, Corelys, Corlok, Cortek, C design, Cortek design/logo, Deltaloc, Discocerv, Dovetome, Dynoss, Dynamic-TTL Rod, Easys, Electra, Elfix, Ellys, Helifix, Illico,

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Inspiration, Isobar, Isobar Duo, Isobar Evolution, Isobar Hemispherical Screw, Isobar LP, Isobar SL, Isobar TTC, Isobar TTL, Isobar U-Screw, Majorys, MX System, Novel, Openview, Oria, OsseoFix, OsseoFix+, Osseoscrew, Pach, Pantheon, Preview, Samarys, Scient x, Solanas, Solo, Solutions for the Aging Spine, Stella, Tamarack, Trestle, Tribeca, X, Xenon, and Zodiac.

License and Supply Agreements

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

License Agreement with Vertebration, Inc.

In March 2011, we entered into a License Agreement, or, the Vertebration Agreement with Vertebration, Inc., or, Vertebration that provides us with an exclusive license to develop and commercialize Vertebration s proprietary licensed technology related to its Xycor implant and related instrumentation. The Xycor implant has received 510(k) approval for marketing by the FDA. The financial terms of the Vertebration License Agreement include: (i) a cash payment of $0.5 million following the execution of the Vertebration License Agreement, of which $0.1 million will be credited against amounts payable to Vertebration at a future date and $0.1 million will be repaid by Vertebration in March 2014; (ii) additional cash payments totaling $0.2 million which were paid and expensed in 2011; (iii) development and sales milestone payments in cash that could begin to be achieved and paid in 2012; and (iv) payments consisting of either: (a) a royalty based on net sales of licensed products or (b) a payment of percentage of our gross margin, with the type of payment dependent on the manner in which the product was sold, with minimum annual payments beginning in the year after the first commercial sale of a licensed product. During the first quarter of 2011, we recorded an intangible asset of $0.4 million following the execution of the Vertebration License Agreement. We are amortizing this asset over seven years, the estimated life of the Xycor product.

Our additional key agreements are described in Note 5 to our consolidated financial statements under Part II, Item 8 Financial Statements and Supplementary Data.

Government Regulation

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

- product design and development;
- product testing;
- product manufacturing;
- product labeling;
- product storage;
- premarket clearance or approval;

advertising and promotion;

product marketing, sales and distribution; and

post-market surveillance, including reporting deaths or serious injuries related to products and certain product malfunctions.

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FDA s Premarket Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the U.S. will require either prior 510(k) clearance or approval of a premarket approval application, or PMA. The information that must be submitted to the FDA in order to obtain clearance or approval to market a new medical device varies depending on how the medical device is classified by the FDA. Medical devices are classified into one of three classes on the basis of the intended use of the device, the indications for use and on controls deemed by the FDA to be necessary to reasonably ensure their safety and effectiveness. Class I devices, which are those that have the lowest level or risk associated with them, are subject to general controls, Class II devices are subject to general controls and special controls, including performance standards, and Class III devices, which have the highest level of risk associated with them, are subject to general controls and premarket approval. Most Class I devices and many Class II devices are exempt from the 510(k) requirement, although the manufacturers will still be subject to registration, listing, labeling and GMP requirements. Class III devices are subject to those requirements, too, but also require and PMA approval. A new medical device for which there is no substantially equivalent device is automatically designated a Class III device. Depending on the nature of the new device, the manufacturer may ask the FDA to make a risk-based determination of the new device and reclassify it in Class I or Class II. This process is referred to as the *de novo* process. If the FDA agrees, the new device will be reassigned to the appropriate other class. If it does not agree, the manufacturer will have to submit a PMA. Our current commercial products are Class II devices marketed under FDA 510(k) premarket clearance. Both premarket clearance and premarket approval applications are subject to the payment of user fees, paid at the time of submission for FDA review.

510(k) Clearance Pathway

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

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

Premarket Approval Pathway

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

After a premarket approval application is sufficiently complete, the FDA will accept the application and begin an in-depth review of the submitted information. By statute, the FDA has 180 days to review the accepted

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

Clinical Trials

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

Pervasive and Continuing FDA Regulation

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

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

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include any of the following sanctions:

- warning letters;
- fines, injunctions, and civil penalties;
- recall or seizure of our products;

operating restrictions, partial suspension or total shutdown of production;

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refusal to grant 510(k) clearance or PMA approvals of new products; and

criminal prosecution.

To ensure compliance with regulatory requirements, medical device manufacturers are subject to market surveillance and manufacturers and their third-party manufacturers are subject to periodic announced and unannounced inspection by the FDA. In January 2011, we received a Warning Letter from the FDA relating to post-market surveillance study protocol for certain of our dynamic fusion rods. As a result of this Warning Letter, in 2011 we stopped the distribution of this product.

In June of 2011 the FDA sent an untitled letter to the manufacturer of our PureGen product, Parcell Laboratories, LLC regarding the regulatory status of the product. In the letter, the FDA raised questions in connection with Parcell s position that the PureGen product is within the classification of human cell, tissue, and cellular or tissue-based products regulated solely under Section 361 of 21 C.F.R. Part 1271. Parcell responded to the FDA s letter in July of 2011 with more complete information of the function of PureGen and how the product meets all of the criteria for being marketed under Section 361. In addition, in January 2012 both Parcell and we filed a joint appeal of the FDA s classification of the PureGen product.

International Device Regulations

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

Japan

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

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

European Union

The European Union, which consists of 27 of the countries in Europe, has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling, and adverse event reporting for medical devices. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear CE conformity marking and, accordingly, can be commercially distributed

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throughout the member states of the European Union, and other countries that comply with or mirror these directives. The method of assessing conformity varies depending on the type and class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a Notified Body, an independent and neutral institution appointed to conduct conformity assessment. This third-party assessment consists of an audit of the manufacturer s quality system and technical review and testing of the manufacturer s product. An assessment by a Notified Body in one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. In addition, compliance with voluntary harmonized standards including ISO 13845 issued by the International Organization for Standards establishes the presumption of conformity with the essential requirements for a CE mark. In October 2007, we were certified by Intertek Semko, a Notified Body, under the European Union Medical Device Directive allowing the CE conformity marking to be applied.

Environmental Matters

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

Compliance with Fraud and Abuse Laws and Other Applicable Statutes

We are subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws, physician self-referral laws, false claims laws, criminal health care fraud laws, and foreign corrupt practice laws. Violations of these laws are punishable by criminal and/or civil sanctions, including, in some instances, fines, imprisonment and, within the United States, exclusion from participation in government healthcare programs, including Medicare, Medicaid and Veterans Administration health programs. These laws are administered by, among others, the U.S. Department of Justice, the Office of Inspector General of the Department of Health and Human Services and state attorneys general. Many of these agencies have increased their enforcement activities with respect to medical device manufacturers in recent years.

The Medicare and Medicaid Patient Protection Act of 1987, as amended, or Anti-Kickback statute, prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service, for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. For example, the definition of remuneration has been broadly interpreted to include anything of value, including, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payments, ownership interests and providing anything at less than its fair market value. In addition, in March 2010, the U.S. Congress adopted and President Obama signed into law the Patient Protection and Affordable Health Care Act, which, as amended by the Health Care and Education Reconciliation Act, is referred to as PPACA. PPACA, among other things, amends the intent requirement of the federal Anti-Kickback Statute. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, PPACA provides that the government may assert that a claim including items or services resulting from a violation of the Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act.

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In implementing the Anti-Kickback Statute, the Office of Inspector General, or OIG, has issued a series of regulations, known as the safe harbors, which began in July 1991. These safe harbors set forth provisions that, in circumstances where all the applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy all requirements of an applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the OIG. Penalties for violations of the Anti-Kickback Statute include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. Many states have anti-kickback laws that are similar to the federal law, including penalties, fines, sanctions for violations, and exclusions from state or commercial programs.

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

We have entered into various agreements with certain surgeons that perform services for us, including some who make clinical decisions to use our products. Some of our referring surgeons own our stock, which they either purchased in an arms length transaction on terms identical to those offered to non-surgeons or received from us as fair market value consideration for services performed. In addition, physician-owned distribution companies have increasingly become involved in the sale and distribution of medical devices, including the products for the surgical treatment of spine disorders. In many cases, these distribution companies enter into arrangements with hospitals that bill Medicare or Medicaid for the furnishing of medical services, and the physician-owners are among the physicians who refer patients to the hospitals for surgery. While we believe that our current operations comply with applicable fraud and abuse laws and do not believe that we are subject to any arrangements that violate any such laws, we are not aware of all of the financial arrangements of the physician-owned distribution companies with which we contract. All arrangements we have that involve surgeons, sales agents or distributors have all been structured with the intention of complying with all applicable fraud and abuse laws, including the anti-kickback statute, Stark Law and similar state anti-referral laws.

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

The Health Insurance Portability and Accountability Act, or HIPAA, created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. Under recent changes in PPACA, the intent requirement of the healthcare fraud statute is lowered such that a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. A

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violation of this statute is a felony and may result in fines, imprisonment or possible exclusion from Medicare, Medicaid and other federal healthcare programs. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items, or services. A violation of this statute is a felony and in similar sanctions.

PPACA also includes various provisions designed to strengthen significantly fraud and abuse enforcement in addition to those changes discussed above. Among these additional provisions include increased funding for enforcement efforts and new sunshine provisions to require reporting and disclosures of any transfer of value made or distributed to prescribers and other health care providers. There are various state laws and initiatives that require device manufacturers to disclose to the appropriate regulatory agency certain payments or other transfers of value made to physicians, with the risk of fines for any violation of such requirements. Massachusetts has one of the most stringent of these laws, and the District of Columbia and Vermont passed such laws in 2008 and 2009, respectively.

We may also be exposed to liabilities under the U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment, and requires companies to maintain adequate record-keeping and internal accounting practices to accurately reflect the transactions of the company. We are also subject to a number of other laws and regulations relating to money laundering, international money transfers and electronic fund transfers. These laws apply to companies, individual directors, officers, employees and agents.

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

Third-Party Reimbursement

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

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

PPACA and other reform proposals contain significant changes regarding Medicare, Medicaid and other third party payors. Among these changes is the imposition of a 2.3% excise tax on domestic sales of medical devices following December 31, 2012. These taxes will result in a significant increase in the tax burden on our industry. Other elements of this legislation include numerous provisions to limit Medicare spending through

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reductions in various fee schedule payments and by instituting more sweeping payment reforms, such as bundled payments for episodes of care, the establishment of accountable care organizations under which hospitals and physicians will be able to share savings that result from cost control efforts, comparative effectiveness research, value-based purchasing, and the establishment of an independent payment advisory board. Many of these provisions will be implemented through the regulatory process, and policy details have not yet been finalized. In addition, PPACA has been subject to various legal and legislative challenges. For example, the U.S. House of Representatives recently voted to repeal PPACA, two courts have ruled that one provision, the minimum coverage rule, or so-called personal mandate, which is not scheduled to go into effect until 2014, is unconstitutional. Other proposals have been introduced in Congress to repeal the device tax. Various healthcare reform proposals have also emerged at the state level. We cannot predict with certainty whether PPACA will be fully implemented as enacted or what other healthcare initiatives at the federal or state level, if any, will be implemented. However, an expansion in government s role in the U.S. healthcare industry may lower reimbursements for our products, reduce medical procedure volumes, and adversely affect our business and results of operations, possibly materially.

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

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

Employees

As of December 31, 2011, we had approximately 470 employees worldwide in the following areas: sales, physician services, marketing, clinical education, manufacturing, advanced manufacturing, quality assurance, regulatory affairs, research and development, human resources, finance, legal, information technology and administration. We have never experienced a work stoppage due to labor difficulties and believe that our relations with our employees are good. Certain employees in Europe have labor committees and collective bargaining agreements in place.

Item 1A. Risk Factors

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

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Risks Related to Our Business and Industry

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

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

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

We continue to experience growth in, and we will continue to pursue growth in, the number of surgeons using our products, the types of products we offer and the geographic regions in which our products are sold. Such growth has placed and will continue to place significant demands on our managerial, operational and financial resources and systems. Future growth would impose significant added responsibilities on members of management, including the need to identify, recruit, maintain, motivate and integrate additional personnel. Also, our management may need to divert a disproportionate amount of its attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. We are currently focused on increasing the size and effectiveness of our sales force and distribution network, marketing activities, research and development efforts, inventory management systems, management team and corporate infrastructure. If we do not manage our growth effectively, the quality of our products, our relationships with physicians, distributors and hospitals, and our reputation could suffer, which would have a significant adverse effect on our business, financial condition and results of operations. We must attract and retain qualified personnel and third-party distributors and manage and train them effectively. Personnel qualified in the design, development, production and marketing of our products are difficult to find and hire, and enhancements of information technology systems to support our growth are difficult to implement. We will also need to carefully monitor and manage our surgeon services, our manufacturing capabilities, quality assurance and efficiency, and the quality assurance and efficiency of our suppliers and distributors. This managing, training and monitoring will require allocation of valuable management resources and significant expense. If our management is unable to effectively manage our expected growth, our expenses may increase more than expected, our ability to generate and/or grow revenues could be reduced and we may not be able to implement our business strategy.

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

Volatility and disruption in the global capital and credit markets has reduced the availability of liquidity and credit to fund or support the continuation and expansion of industrial business operations worldwide. Recent financial market conditions have resulted in significant write-downs of asset values by financial institutions, and

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

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

The market for spine fusion products and procedures is intensely competitive, subject to rapid technological change and significantly affected by new product introductions and other market activities of industry participants. In 2011, a large portion of global spinal implant product revenues were generated by Medtronic Sofamor Danek, a subsidiary of Medtronic, Inc., Depuy Spine, a subsidiary of Johnson & Johnson, Stryker Spine, and Synthes Spine. Our competitors also include numerous other publicly traded companies and privately held companies.

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

more established relationships with spine surgeons;

more established distribution networks;

broader spine surgery product offerings;

stronger intellectual property portfolios;

greater financial and other resources for product research and development, sales and marketing, and patent litigation;

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

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

more established relationships with healthcare providers and payors;

products supported by more extensive clinical data; and

greater experience in obtaining and maintaining FDA and other regulatory clearances or approvals for products and product enhancements.

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

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

Net sales of our systems that include polyaxial pedicle screws represented approximately 46% and 34% of our net sales for 2011 and 2010, respectively. A decline in sales of these systems, due to market demand, the introduction by a third party of a competitive product, an intellectual property dispute involving these systems, or otherwise, would have a significant adverse impact on our business, financial condition and results of operations.

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Some of the technology related to our polyaxial pedicle screw systems is licensed to us. Any action that would prevent us from manufacturing, marketing and selling our polyaxial pedicle screw systems would have a significant adverse effect on our business, financial condition and results of operations.

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

As of December 31, 2011, approximately 25% of our independent distributors in the U.S. also market and sell the products of our competitors, and those competitors may have the ability to influence the products that our independent distributors choose to market and sell. Our competitors may be able, by offering higher commission payments or otherwise, to convince our independent distributors to terminate their relationships with us, carry fewer of our products or reduce their sales and marketing efforts for our products.

We may be unable to accurately predict future sales through distributors that purchase products directly from us, which could harm our ability to forecast sales performance.

A portion of our sales are made through domestic and international third-party distributors that purchase our products directly though us and then resell such products to hospitals. As a result, our financial results, quarterly product sales, trends and comparisons are affected by fluctuations in the buying patterns and inventory levels of these distributors. While we attempt to assist such distributors in forecasting its future sales and maintaining adequate inventory levels, we may not consistently be accurate or successful. In addition, our distributors decision-making process regarding orders is complex and involves several factors, including surgeon demand levels, which can make it difficult to accurately predict our sales until late in a quarter. Our failure to accurately forecast sales through distributors that purchase products directly from us could lead to a decline in sales and adversely affect our results of operations.

If pricing pressures causes us to decrease prices for our goods and services and we are unable to compensate for such reductions through product mix and reductions to our expenses, our results of operations will suffer.

We may experience decreasing prices for our goods and services we offer due to pricing pressure exerted by our customers in response to increased cost containment efforts from managed care organizations and other third-party payors and increased market power of our customers as the medical device industry consolidates. If we are unable to offset such price reductions through product mix or reductions in our expenses, our business, financial condition, results of operations and cash flows will be adversely affected.

We conduct a significant amount of our sales activity outside of the U.S., which subjects us to additional business risks and may adversely affect our results of operations and financial condition.

During the year ended December 31, 2011, we derived approximately $63.9 million, or 32% of our net sales from sales of products outside of the U.S. We intend to continue to pursue growth opportunities in sales internationally, which could expose us to additional risks associated with international sales and operations. Our international operations are, and will continue to be, subject to a number of risks and potential costs, including:

- changes in foreign medical reimbursement policies and programs;
- unexpected changes in foreign regulatory requirements;
- differing local product preferences and product requirements;
- diminished protection of intellectual property in some countries outside of the United States;
- differing payment cycles;

trade protection measures and import or export licensing requirements;

difficulty in staffing, training and managing foreign operations;

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differing legal regulations and labor relations;

potentially negative consequences from changes in tax laws (including potentially taxes payable on earnings of foreign subsidiaries upon repatriation); and

political and economic instability.

In addition, we are subject to risks arising from currency exchange rate fluctuations, which could decrease our revenues, increase our costs and may adversely affect our results of operations. Significant increases in the value of the U.S. dollar relative to foreign currencies could have a material adverse effect on our international results of operations.

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

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

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

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

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

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

We are seeking to rapidly grow sales of our products and if we are successful, such growth may strain our ability to manufacture an increasingly large supply of our products. We have never produced products in

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quantities significantly in excess of our current production levels. Manufacturers regularly experience difficulties in scaling up production and we may face such difficulties in increasing our production levels. Moreover, we may not be able to manufacture our products with consistent and satisfactory quality or in sufficient quantities to meet demand. Our failure to produce products of satisfactory quality or in sufficient quantities could hurt our reputation, cause hospitals, surgeons or distributors to cancel orders or refrain from placing new orders for our products and reduce or slow growth of sales of our products. Increases in our production volume also could make it harder for us to maintain control over expenses, manage our relationships with our suppliers, maintain good relations with our employees or otherwise manage our business. In addition, should we not be able to achieve our revenue forecast and cash consumption starts to exceed forecasted consumption, management will need to adjust our production of surgical instruments and manage our inventory to the decreased sales volumes. If we do not make these adjustments in a timely manner, there could be an adverse impact on our financial resources.

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

We use a number of raw materials, including titanium, titanium alloys, stainless steel, PEEK, and human tissue. We rely from time to time on a number of suppliers and in one case on a single source vendor, Invibio, Inc. We have a supply agreement with Invibio, pursuant to which it supplies us with PEEK, a biocompatible plastic that we use in some of our spacers. Invibio is one of a limited number of companies approved to distribute PEEK in the U.S. for use in implantable devices. During 2011 and 2010 approximately 16% of our revenues were derived from products manufactured using PEEK.

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

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

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

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

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The regulatory status of our PureGen product is unclear, and we could be forced to stop marketing the product.

In 2010, we began to market and sell our PureGen Osteoprogenitor Cell Allograft product pursuant to section 361 of the Public Health Service Act and 21 CFR Part 1271 Human Cell & Tissue Products Controls, or the HCT/P. Such action was based on our good faith belief that PureGen was a 361 HCT/P tissue product. In June 2011 the manufacturer of PureGen, Parcell Laboratories, was contacted by FDA concerning the regulatory status of PureGen. These communications stated FDA s belief that PureGen was a biologic product subject to regulation under Section 351 of the Public Health Service Act, or the PHS Act, by the Center for Biologics Evaluation and Research, or CBER. Both we and Parcell disagreed with this position. Parcell responded to the FDA s letter in July of 2011 with more complete information of the function of PureGen and how the product meets all of the criteria for being marketed under Section 361. In addition, in January 2012 both we and Parcell filed a joint appeal of the FDA s classification of the PureGen product. Until a final determination is made as to the regulatory status of the PureGen product, we intend to continue to market and sell the product. In the event that the FDA requires us to stop marketing or selling PureGen until it has achieved regulatory approval as a medical device or biologic product, we would be forced to stop selling the product. In addition, if we fail to comply with applicable regulatory requirements related to PureGen, the FDA could deny future marketing clearance, approval or licensing, withdraw approvals or revoke licenses, or impose civil penalties, including fines, product seizures or product recalls and, in extreme cases, criminal sanctions.

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

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

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

We and our suppliers are required to comply with the FDA s QSRs, which cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, record keeping, storage and shipping of our products. In addition, suppliers and processors of products derived from human cells and tissues must comply with the FDA s current good tissue practice regulations, or CGTPs, which govern the methods used in and the facilities and controls used for the manufacture of human cell tissue and cellular products, record keeping and the establishment of a quality program. The FDA audits compliance with the QSRs and CGTPs through inspections of manufacturing and other facilities. If we or our suppliers have significant non-compliance issues or if any corrective action plan is not sufficient, we or our suppliers could be forced to delay the manufacture of our products until such problems are corrected to the FDA s satisfaction, which could have a material adverse effect on our business, financial condition and results of operations. Further, our products could be subject to recall if the FDA determines, for any reason, that our products are not safe or effective. Any recall or FDA requirement demanding that we seek additional approvals or clearances could result in delays, costs associated with modification of a product, loss of revenue and potential operating restrictions imposed by the FDA, all of which could have a material adverse effect on our business, financial condition and results of operations.

The FDA inspected our Carlsbad, California facilities in February 2010 and non-compliance items were cited on an FDA Form 483 that we received following the inspection. In June 2010, we received a Warning Letter from the Irvine District office of the FDA. The Warning Letter related specifically to non-conformances in

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quality systems previously identified in the Form 483 that was related to the February inspection. We have responded to the Warning Letter and completed corrective actions to address the observations. Subsequent to a follow-up audit of our Carlsbad, California facility in December 2010 the FDA issued a close-out letter dated September 28, 2011 in which the FDA stated that the Company has resolved all of the deficiencies contained in the Warning Letter.

Healthcare policy changes, including recent federal legislation to reform the U.S. healthcare system, may have a material adverse effect on us.

In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by the federal government, state governments, regulators and third-party payors to control these costs and, more generally, to reform the U.S. healthcare system. Certain of these proposals could limit the prices we are able to charge for our products or the amounts of reimbursement available for our products, limit the acceptance and availability of our products, and have a material adverse effect on our financial position and results of operations.

In March 2010, the U.S. Congress adopted and President Obama signed into law the PPACA. The legislation imposes a 2.3% excise tax on domestic sales of medical devices following December 31, 2012. These taxes will result in a significant increase in the tax burden on our industry. Other elements of this legislation include numerous provisions to limit Medicare spending through reductions in various fee schedule payments and by instituting more sweeping payment reforms, such as bundled payments for episodes of care, the establishment of accountable care organizations under which hospitals and physicians will be able to share savings that result from cost control efforts, comparative effectiveness research, value-based purchasing, and the establishment of an independent payment advisory board. Many of these provisions will be implemented through the regulatory process, and policy details have not yet been finalized. In addition, PPACA has been subject to various legal and legislative challenges. For example, the U.S. House of Representatives recently voted to repeal PPACA, two courts have ruled that one provision, the minimum coverage rule, or so-called personal mandate, which is not scheduled to go into effect until 2014, is it unconstitutional. Other proposals have been introduced in Congress to repeal the device tax. We cannot predict with certainty whether PPACA will be fully implemented as enacted or what other healthcare initiatives at the federal or state level, if any, will be implemented. However, an expansion in government s role in the U.S. healthcare industry may lower reimbursements for our products, reduce medical procedure volumes and adversely affect our business and results of operations, possibly materially.

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

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

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

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

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

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

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

Although we do not provide healthcare services, submit claims for third-party reimbursement, or receive payments directly from Medicare, Medicaid, or other third-party payors for our products or the procedures in

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which our products are used, healthcare regulation by federal and state governments significantly impacts our business. Healthcare fraud and abuse, health information privacy and security, and disclosure laws potentially applicable to our operations include:

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

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

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

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

- the state and federal laws sunshine provisions that require the reporting and disclosures of any transfer of value made or distributed to prescribers and other health care providers, require the adoption of marketing codes of conduct, and constrain their relationships with physicians and other referral sources; and

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

PPACA includes various provisions designed to strengthen significantly fraud and abuse enforcement, such as increased funding for enforcement efforts and the lowering of the intent requirement of the federal anti-kickback statute and criminal healthcare fraud statute such that a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it.

If our past or present operations, or those of our independent sales agents and distributors are found to be in violation of any of such laws or any other governmental regulations that may apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from federal healthcare programs and/or the curtailment or restructuring of our operations. Similarly, if the healthcare providers, sales agents, distributors or other entities with whom we do business are found to be non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on us. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the Courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business.

In January 2004, the Advanced Medical Technology Association or AdvaMed, the principal U.S. trade association for the medical device industry, put in place a model code of conduct that sets forth standards by

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which its members should abide in the promotion of their products. We have in place policies and procedures for compliance that we believe are at least as stringent as those set forth in the AdvaMed Code, and we provide routine training to our sales and marketing personnel on our policies regarding sales and marketing practices. The AdvaMed Code was revised in 2009 to make it more stringent with respect to interactions with healthcare professionals. We have adopted the new aspects of the revised AdvaMed Code.

The sales and marketing practices of our industry have been the subject of increased scrutiny from federal and state government agencies, and we believe that this trend will continue. Prosecutorial scrutiny and governmental oversight over some major device companies regarding the retention of healthcare professionals as consultants has affected and may continue to affect the manner in which medical device companies may retain healthcare professionals as consultants. We have in place policies to govern how we may retain healthcare professionals as consultants that reflect the current climate on this issue and are providing training on these policies. Any action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business.

Our international operations may expose us to liabilities under the Foreign Corrupt Practices Act and Money Laundering Laws.

We may be exposed to liabilities under the U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits companies and their intermediaries from making corrupt payments to foreign officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment, and requires companies to maintain adequate record keeping and internal accounting practices to accurately reflect the transactions of the company. We are also subject to a number of other laws and regulations relating to money laundering, international money transfers and electronic fund transfers, which we collectively refer to as Money Laundering Laws. These laws apply to companies, individual directors, officers, employees and agents.

We operate in a number of jurisdictions with developing economies that pose a high risk of potential violations of the FCPA and Money Laundering Laws, and we utilize third-party distributorships that have government customers. If our employees, third-party distributors or other agents are found to have engaged in such practices, we could suffer severe penalties, including criminal and civil penalties, disgorgement and other remedial measures, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

Our medical devices are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining regulatory clearances or approvals to market a medical device, particularly from the FDA, can be costly and time consuming, and there can be no assurance that such clearances or approvals will be granted on a timely basis, if at all. In particular, the FDA permits commercial distribution of most new medical devices only after the devices have received clearance under Section 510(k) of the Federal Food, Drug and Cosmetic Act, or 510(k), or are the subject of an approved premarket approval application, or a PMA. The 510(k) process generally takes three to nine months, but can take significantly longer, especially if the FDA requires a clinical study to support the 510(k) application. In connection with the 510(k) that we submitted for the OsseoFix system, the FDA required clinical data to support the 510(k). Currently, we are not certain as to whether the FDA will require clinical data in support of any other 510(k)s that we intend to submit for other products in our pipeline. In addition, the FDA is currently re-examining its 510(k) clearance process for medical devices and recently published several draft guidance documents that could change that process. Any changes that make the process more restrictive could increase the time it takes for us to obtain clearances or could make the 510(k) process unavailable for certain of our products.

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A PMA must be submitted to the FDA if the device cannot be cleared through the 510(k) process or is not exempt from premarket review by the FDA. A PMA must be supported by extensive data, including results of preclinical studies and clinical trials, manufacturing and control data and proposed labeling, to demonstrate to the FDA s satisfaction the safety and effectiveness of the device for its intended use. The PMA process is more costly and uncertain than the 510(k) clearance process, and generally takes between one and three years, if not longer. In addition, any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, requires a new 510(k) clearance or, possibly, a PMA.

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

delay or prevent commercialization of products we develop;

require us to perform costly procedures;

diminish any competitive advantages that we might otherwise have obtained; and

reduce our ability to collect revenues.

To date, all of our non-biologic medical device products that have required FDA review that are being sold in the U.S. have been cleared through the 510(k) process without any required clinical trials. However, the FDA may require clinical data in support of any 510(k)s that we intend to submit for products in our pipeline. We have limited experience in obtaining approval for a device through the 510(k) clinical trial process or the PMA process. If any of our products require the 510(k) clinical process of the PMA process, such processes could delay the commercialization of such products and could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

We sell our products in a market that is characterized by technological change, product innovation, evolving industry standards, competing patent claims, patent litigation and intense competition. Our success will depend in part on our ability to develop and introduce new products and enhancements or modifications to our existing products, which we will need to do before our competitors do so and in a manner that does not infringe issued patents of third parties from which we do not have a license. We cannot assure you that we will be able to successfully develop or market new, improved or modified products, or that any of our future products will be accepted by even the surgeons who use our current products. Our competitors product development capabilities could be more effective than our capabilities, and their new products may get to market before our products. In addition, the products of our competitors may be more effective or less expensive than our products. The introduction of new products by our competitors may lead us to have price reductions, reduced margins or loss of market share and may render our products obsolete or noncompetitive. The success of any of our new product offerings or enhancement or modification to our existing products will depend on several factors, including our ability to:

- properly identify and anticipate surgeon and patient needs;
- develop new products or enhancements in a timely manner;
- obtain the necessary regulatory approvals for new products or product enhancements;
- provide adequate training to potential users of new products;

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receive adequate reimbursement approval of third-party payors such as Medicaid, Medicare and private insurers; and

develop an effective marketing and distribution network.

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

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

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

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

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

earthquake, fire, flood and other natural disasters;

terrorist attacks and attacks by computer viruses or hackers;

power loss; and

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

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

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

We currently conduct the majority of our development, manufacturing and management activities in Carlsbad, California near known wildfire areas and earthquake fault zones. We have taken precautions to safeguard our facilities, including obtaining property and casualty insurance, and implementing health and safety protocols. We have developed an Information Technology disaster recovery plan. However, any future natural disaster, such as a fire or an earthquake, could cause substantial delays in our operations, damage or destroy our equipment or inventory and cause us to incur additional expenses. A disaster could seriously harm our business, financial condition and results of operations. Our facilities would be difficult to replace and would require substantial lead time to repair or replace. The insurance we maintain against earthquakes, fires, and other natural disasters would not be adequate to cover a total loss of our manufacturing facilities, may not be adequate to cover our losses in any particular case and may not continue to be available to us on acceptable terms, or at all.

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

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

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

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

If we fail to maintain effective internal controls and procedures for financial reporting, we could be unable to provide timely and accurate financial information and therefore be subject to delisting from The NASDAQ

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Global Select Market, an investigation by the SEC, and civil or criminal sanctions. Additionally, ineffective internal control over financial reporting would place us at increased risk of fraud or misuse of corporate assets and could cause our stockholders, lenders, suppliers and others to lose confidence in the accuracy or completeness of our financial reports.

Risks Related to Our Financial Results and Need for Financing

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

The financial and credit crisis that began in 2007 triggered a period of upheaval characterized by bankruptcy, failure, collapse or sale at nominal amounts of various financial institutions. Despite the unprecedented level of intervention in the credit markets by the U.S. and foreign governments that has already occurred and is likely to continue to occur, this crisis could temporarily restrict our ability to borrow money on acceptable terms in the credit markets and potentially could affect our ability to draw on our current credit facility. The financial and credit crisis could make it difficult or, in many cases, impossible for our customers to borrow money to fund their operations. Their lack of or limited access to capital may adversely affect their ability to purchase our products or, in some cases, to pay for our products on a timely basis.

Our quarterly financial results could fluctuate significantly.

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

- acceptance of our products by surgeons, patients, hospitals and third-party payors;
- demand and pricing of our products;
- the mix of our products sold, because profit margins differ among our products;
- timing of new product offerings, acquisitions, licenses or other significant events by us or our competitors;
- our ability to grow and maintain a productive sales and marketing organization;
- regulatory approvals and legislative changes affecting the products we may offer or those of our competitors;
- the effect of competing technological and market developments;
- levels of third-party reimbursement for our products;
- interruption in the manufacturing or distribution of our products;
- our ability to produce or obtain products of satisfactory quality or in sufficient quantities to meet demand; and

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

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

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

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

We believe that our current cash and cash equivalents, revenues from our operations, and Alphatec Spine s ability to draw down on its credit facility, will be sufficient to fund our projected operating requirements through December 31, 2012. Despite this belief, we may seek additional funds from public and private stock offerings, borrowings under new debt facilities or other sources. Our capital requirements will depend on many factors, including:

- the revenues generated by sales of our products;
- the costs associated with expanding our sales and marketing efforts;
- the expenses we incur in manufacturing and selling our products;
- the costs of developing new products or technologies;
- the cost of obtaining and maintaining FDA or other regulatory approval or clearance for our products and products in development;
- the number and timing of acquisitions and other strategic transactions;
- the costs associated with increased capital expenditures; and
- the costs associated with our employee retention programs and related benefits.

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

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

In November 2011, we and SVB executed an agreement for a third amendment to the amended credit facility which included a waiver for non-compliance with the financial covenants for the quarterly period ended September 30, 2011 and it also restructured our amended credit facility terms including future financial covenants. As of December 31, 2011, we were not in compliance with the minimum quarterly EBITDA covenant of our amended credit facility and we obtained a waiver from the lender for such noncompliance.

We are required to maintain compliance with financial covenants in our credit facility. In order to meet the covenants for 2012, we will need to achieve growth over our historical revenue and earnings levels. If we are not able to achieve planned revenue growth or incur costs in excess of our forecast, we could be in default of the credit facility and the Lenders would have the right to declare the loan immediately due and payable. To secure the repayment of any amounts borrowed under this credit facility, we granted to the lenders a first priority security interest in all of our assets, other than our intellectual property and our rights under license agreements granting us rights to intellectual property. We also agreed not to pledge or otherwise encumber our intellectual property assets without the approval of the lenders. The credit facility also contains customary affirmative and negative covenants for loan agreements of this type, including, but not limited to, limitations on the incurrence of indebtedness,

asset dispositions, acquisitions, investments, dividends and other restricted payments, liens and transactions with affiliates. A nonappealable judgment in excess of $100,000 that is unsatisfied for a period of ten days is also defined as an event of default.

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

If we default on our obligations to make settlement payments to Cross Medical Products, the amounts due under the settlement agreements accelerates and becomes due and payable.

Any default of our payment obligation under the settlement agreements we entered into with Cross Medical Products would give Cross the right to declare all of the future payments to be immediately payable, together with additional payments to cover interest and Cross legal fees. As of March 2, 2012, the outstanding amount to be paid to Cross Medical through August 2015 is $13,000,000. If this acceleration of payments occurs, our business, financial condition and results of operations could be materially and adversely affected.

Risks Related to Our Intellectual Property Regulatory Penalties and Potential Litigation

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

Our success depends significantly on our ability to protect our proprietary rights of the technologies used in our products. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws, and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. For example, we cannot assure you that any of our pending patent applications will result in the issuance of patents to us. The U.S. Patent and Trademark Office, or PTO, may deny or require significant narrowing of claims in our pending patent applications, and patents issued as a result of the pending patent applications, if any, may not provide us with significant commercial protection or be issued in a form that is advantageous to us. We could also incur substantial costs in proceedings before the PTO. These proceedings could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in issued patents. Our issued patents and those that may be issued in the future could subsequently be successfully challenged by others and invalidated or rendered unenforceable, which could limit our ability to stop competitors from marketing and selling related products. In addition, our pending patent applications include claims to aspects of our products and procedures that are not currently protected by issued patents.

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

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

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

The medical device industry is characterized by extensive litigation and administrative proceedings over patent and other intellectual property rights. Determining whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Our competitors may assert that our products, the components of those products, the methods of using those products, or the methods we employ in manufacturing or processing those products are covered by U.S. or foreign patents held by them. In addition, they may claim that their patents have priority over ours because their patents were filed first. Because patent applications can take many years to issue, there may be applications now pending of which we are unaware, which may later result in issued patents that our products may infringe. There could also be existing patents that one or more components of our products may be inadvertently infringing, of which we are unaware. As the number of participants in the market for spine disorder devices and treatments increases, the possibility of patent infringement claims against us also increases.

Any such claim against us, even those without merit, may cause us to incur substantial costs, and could place a significant strain on our financial resources, divert the attention of management from our core business and harm our reputation. If the relevant patents were upheld as valid and enforceable and we were found to infringe, we could be required to pay substantial damages, including treble, or triple, damages if an infringement is found to be willful, and/or royalties and we could be prevented from selling our products unless we could obtain a license or were able to redesign our products to avoid infringement. Any such license may not be available on reasonable terms, if at all, and there can be no assurance that we would be able to redesign our products in a way that would not infringe those patents. If we fail to obtain any required licenses or make any necessary changes to our products or technologies, we may have to withdraw existing products from the market or may be unable to commercialize one or more of our products, either of which could have a significant adverse effect on our business, financial condition and results of operations.

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

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

Our business exposes us to potential product liability claims that are inherent in the testing, design, manufacture and sale of medical devices for spine surgery procedures. Spine surgery involves significant risk of serious complications, including bleeding, nerve injury, paralysis and even death. To date, our products have not been the subject of any material product liability claims. Currently, we carry product liability insurance in the amount of $10 million per occurrence and $10 million in the aggregate. Our existing product liability insurance coverage may be inadequate to satisfy liabilities we might incur. Any product liability claim brought against us,

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with or without merit, could result in the increase of our product liability insurance rates or our inability to secure coverage in the future on commercially reasonable terms, if at all. In addition, if our product liability insurance proves to be inadequate to pay a damage award, we may have to pay the excess out of our cash reserves, which could harm our financial condition. If longer-term patient results and experience indicate that our products or any component of our products cause tissue damage, motor impairment or other adverse effects, we could be subject to significant liability. Even a meritless or unsuccessful product liability claim could harm our reputation in the industry, lead to significant legal fees and result in the diversion of management s attention from managing our business. If a product liability claim or series of claims is brought against us in excess of our insurance coverage limits, our business could suffer and our financial condition, results of operations and cash flow could be materially adversely impacted.

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

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

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

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

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

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

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

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

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

Risks Related to Our Common Stock

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

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

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

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

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

disputes or other developments with respect to intellectual property rights;

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

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changes in accounting principles; and

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

We and certain of our current officers and directors have been named as defendants in litigation that could result in substantial costs, divert management s attention and otherwise result in dilution to our stockholders.

We and certain of our current and former executive officers, have been sued for alleged violations of federal securities laws related to alleged false and misleading statements and breaches of fiduciary duties in connection with our acquisition of Scient x, and the completion of the public offering that took place in April 2010. Currently there are three shareholder derivative litigations pending and one Federal securities class action litigation pending. We have been engaged in a vigorous defense of such claims. If we are not successful in our defense of such claims, we may have to pay damages awards or otherwise enter into settlement arrangements in connection with such other lawsuits. Any such payments or settlement arrangements could have a material adverse effect on our business, operating results or financial condition. Even if the pending claims are not successful, the litigations could result in substantial costs and a significant adverse impact on our reputation and divert management s attention and resources, which could have a material adverse effect on our business, operating results or financial condition.

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

The stock market in general, and The NASDAQ Global Select Market and the market for medical device companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, the market prices of securities of medical device companies have been particularly volatile. In the past, following periods of volatility in the market price of a particular company s securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation is often expensive and diverts management s attention and resources, which could materially harm our financial condition, results of operations and business.

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

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

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

Based on shares outstanding at February 29, 2012, our executive officers, directors and stockholders holding more than 5% of our outstanding common stock and their affiliates, in the aggregate, beneficially own

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approximately 40% of our outstanding common stock. As a result, these persons will have the ability to significantly impact the outcome of all matters requiring stockholder approval, including the election and removal of directors and any merger, consolidation, or sale of all or substantially all of our assets. This concentration of ownership may harm the market price of our common stock by, among other things:

- delaying, deferring or preventing our change in control;
- impeding a merger, consolidation, takeover or other business combination involving us;
- causing us to enter into transactions or agreements that are not in the best interests of all of our stockholders; or
- reducing our public float held by non-affiliates.

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

Four members of our Board of Directors also serve as officers and directors of our largest stockholder, HealthpointCapital, or its related entities and of other companies in which HealthpointCapital invests, including companies with which we compete or may in the future compete. As of February 29, 2012, HealthpointCapital owned approximately 37% of our outstanding common stock. The Chairman of our Executive Committee of our Board of Directors, Mortimer Berkowitz III, is a managing member of HGP, LLC and HGP II, LLC, the general partners of HealthpointCapital Partners, LP and HealthpointCapital Partners II, LP, respectively. John H. Foster, a member of our Board of Directors, is a managing member of HGP, LLC and HGP II, LLC and the Chairman, Chief Executive Officer, a member of the Board of Managers and a Managing Director of HealthpointCapital, LLC. Our directors R. Ian Molson and Stephen E. O Neil also serve on the board of managers of HealthpointCapital, LLC. In addition, Messrs. Berkowitz, Foster, O Neil, Molson, and two other directors, Messrs. Rohit Desai and James Glynn also have financial interests in HealthpointCapital investment funds.

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

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

Certain provisions of our amended and restated certificate of incorporation and restated by-laws could discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which our stockholders might otherwise receive a premium for their shares.

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These provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. Stockholders who wish to participate in these transactions may not have the opportunity to do so. Furthermore, these provisions could prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions:

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our estimates regarding anticipated operating losses, future revenue, expenses, capital requirements, and liquidity, including our anticipated revenue growth and cost savings following our acquisition of Scient x;
- our ability to market, commercialize and achieve market acceptance of any of our products or any product candidates that we are developing or may develop in the future;

our ability to successfully integrate, and realize benefits from our acquisition of, Scient x;

our ability to successfully achieve and maintain regulatory clearance or approval for our products in applicable jurisdictions;

the effect of any existing or future federal, state or international regulations on our ability to effectively conduct our business;

our estimates of market sizes and anticipated uses of our products, including without limitation the market size of the aging spine market and our ability to successfully penetrate such market;

our business strategy and our underlying assumptions about market data, demographic trends, reimbursement trends, pricing trends, and trends relating to customer collections;

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trends related to the treatment of spine disorders, including without limitation the aging spine market;

our ability to control our costs, achieve profitability, and the potential need to raise additional funding;

the amount of our legal expenses associated with the securities and stockholder derivative litigation, litigation regarding our intellectual property and any future litigation that may arise, and the adequacy of our insurance policy coverage regarding those expenses and any damages or settlement payments related to such litigation;

our ability to maintain an adequate sales network for our products, including to attract and retain independent distributors;

our ability to enhance our U.S. and international sales networks and product penetration;

the difficulty in accurately predicting the future purchases of our U.S.-based and international stocking distributors;

our ability to attract and retain a qualified management team, as well as other qualified personnel and advisors;

our ability to enter into licensing and business combination agreements with third parties and to successfully integrate the acquired technology and/or businesses;

our management team s ability to accommodate growth and manage a larger organization;

our ability to protect our intellectual property, and to not infringe upon the intellectual property of third parties;

our ability to maintain compliance with the quality requirements of the FDA and similar regulatory authorities outside of the U.S.;

our ability to meet the financial covenants under our credit facilities;

our ability to obtain alternative financing, if needed;

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

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

the effects of the loss of key personnel;

potential liability resulting from litigation;

potential liability resulting from a governmental review of our or Scient x s business practices; and

other factors discussed elsewhere in this Form 10-Q or any document incorporated by reference herein or therein.

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

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

Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify forward-looking statements. There are a number of factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements, many of

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which are beyond our control, including the factors set forth under Item 1A Risk Factors. In addition, the forward-looking statements contained herein represent our estimate only as of the date of this filing and should not be relied upon as representing our estimate as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

Our corporate office and manufacturing facilities are located in Carlsbad, California. Scient x s operations are headquartered in Beaurains, France. The table below provides selected information regarding our current material operating leased locations.

Location	Use	Approximate Square Footage	Lease Expiration
Carlsbad, California	Corporate headquarters and product design	76,693	January 2016
Carlsbad, California	Product design and manufacturing	73,480	January 2017
Beaurains, France	Scient x administration, manufacturing and distribution	35,400	December 2013

Item 3. Legal Proceedings

Litigation

On February 12, 2010, a complaint was filed in the U.S. District Court for the Central District of California, by Cross Medical Products, LLC, or Cross, (a subsidiary of Biomet), *Cross Medical Products, LLC v. Alphatec Spine, Inc.,* Case No. 8:10-cv-00176-MRP -MLG, alleging that we breached a patent license agreement with Cross by failing to make certain royalty payments allegedly due under the agreement. Cross was seeking payment of prior royalties allegedly due from the Company s sales of polyaxial screws and an order from the court regarding payment of future royalties by us. In its complaint, Cross alleged a material amount of damages were due to it as a result of our alleged breach of the patent license agreement.

In January 2011, we filed a complaint in the U.S. District Court for the Southern District of California against Biomet, Inc., or Biomet, alleging that Biomet s TPS-TL products infringe one of our patents.

On December 30, 2011, we reached a global settlement agreement of the pending lawsuits with Biomet and Cross. Under the terms of the settlement, all parties obtained a release of all claims that were the subject of the disputes. No party has admitted liability in connection with the settlement. The settlement also includes an amendment to the April 23, 2003 License Agreement.

As part of the settlement, we agreed to pay Cross an initial payment of $5 million, which payment was made in January 2012. In addition to the initial payment, we will make thirteen quarterly payments of $1 million beginning on August 1, 2012, with each subsequent payment due three months thereafter until the final payment is made in August 2015. The cash obligations totaling $18 million will be paid as follows: $7 million in 2012, $4 million in 2013, $4 million in 2014 and $3 million in 2015. In addition, pursuant to the settlement, the parties have exchanged covenants not to sue for patent infringement with respect to products that each respective company had on the market as of December 30, 2011.

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In 1998, Eurosurgical, a French company in the business of sales and marketing of spinal implants, entered into a distribution agreement for the United States, Mexico, Canada, India and Australia with Orthotec, LLC, a California company, or Orthotec. In 2004, Orthotec sued Eurosurgical in connection with a contractual dispute and a $9 million judgment was entered against Eurosurgical by a California court. At the same time, a federal court in California declared Eurosurgical liable to Orthotec for $30 million in connection with an intellectual property dispute. In 2006, Eurosurgical s European assets were ultimately acquired by Surgiview, SAS, or Surgiview, in a sale agreement approved by a French court. Pursuant to this sale, Surgiview became a subsidiary of Scient x in 2006. Orthotec attempted to recover on Eurosurgical s obligations in California and federal courts by filing a motion in a California court to add Surgiview to the judgment against Eurosurgical on theories including successor liability and fraudulent conveyance. In February 2007, the California court denied Orthotec s motion, indicating that Orthotec had not carried its burdens of proof. Orthotec chose to not proceed with a further hearing in September 2007. In May 2008, after the acquisition of Scient x by HealthpointCapital in 2007, Orthotec sued Scient x, Surgiview, HealthpointCapital and certain Scient x former directors (who also serve on our board) in a new action in California state court. In addition, at the same time, a similar action was filed in New York against HealthpointCapital and two former directors of Scient x (who also serve on our board). In April 2009, the California court dismissed this matter on jurisdictional grounds, and Orthotec appealed such ruling. In December 2010, the California Court of Appeal issued a decision that affirmed in part and reversed in part the trial court s decision dismissing the entire California action based on lack of personal jurisdiction. The Court of Appeal affirmed the trial court s ruling that Orthotec failed to establish personal jurisdiction over all parties except Surgiview, finding that the trial court could exercise jurisdiction over that entity. In November 2009, the New York court dismissed Orthotec s claims based on collateral estoppel, and Orthotec appealed this ruling. In March 2011, the state appeals court in New York reversed the lower court s decision to dismiss Orthotec s claims, and the New York matter is proceeding with HealthpointCapital and certain former Scient x directors (who also serve on our board) as the only defendants. While the Company intends to vigorously defend against the complaint, and believes that the plaintiff s allegations are without merit, the outcome of the litigation cannot be predicted at this time and any outcome in favor of Orthotec could have a significant adverse effect on the Company s financial condition and results of operations.

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

In August 2009, a complaint filed under the qui tam provisions of the United States Federal False Claims Act (the FCA) that had been filed by private parties against Scient x USA was unsealed by the United States District Court for the Middle District of Florida (Hudak v. Scient x USA, Inc., et al. (Civil Action No. 6:08-cv-1556-Orl-22DAB, U.S. District Court, W.D. Florida). The complaint alleged violations of the FCA arising from allegations that Scient x USA engaged in improper activities related to consulting payments to surgeon customers. The relators in the complaint were the principals of the plaintiff in the DAK Surgical matter discussed above. Under the FCA, the United States Department of Justice, Civil Division, (DOJ), had a certain period of time in which to decide whether to intervene and conduct the action against Scient x, or to decline to intervene and allow the private plaintiffs to proceed with the case. In August 2009, the DOJ filed a notice informing the court that it was declining to intervene in the case. In December 2009, the private plaintiffs who

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filed the action moved the court to dismiss the matter without prejudice, the Attorney General consented to such dismissal and the matter was dismissed without prejudice. Despite the dismissal of this matter, the DOJ is continuing its review of the facts alleged by the original plaintiffs in this matter. To date, neither the Company nor Scient x USA have been subpoenaed by any governmental agency in connection with this review. The Company believes that Scient x USA s business practices were in compliance with the FCA and intends to vigorously defend itself with respect to the allegations contained in the qui tam complaint, however, the outcome of the matter cannot be predicted at this time and any adverse outcome could have a significant adverse effect on the Company s financial condition and results of operations.

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

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

At December 31, 2011, the probable outcome of any of the aforementioned litigation matters cannot be determined nor can the Company estimate a range of potential loss. Accordingly, in accordance with the authoritative guidance on the evaluation of contingencies, the Company has not recorded an accrual related to these litigation matters. The Company is and may become involved in various other legal proceedings arising from its business activities. While management does not believe the ultimate disposition of these matters will have a material adverse impact on the Company s consolidated results of operations, cash flows or financial position, litigation is inherently unpredictable, and depending on the nature and timing of these proceedings, an unfavorable resolution could materially affect the Company s future consolidated results of operations, cash flows or financial position in a particular period.

Item 4. (Removed and Reserved)

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PART II

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

Market Information

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

Year Ended December 31, 2011	High	Low
First quarter	$ 2.95	$ 2.33
Second quarter	3.91	2.64
Third quarter	3.87	1.99
Fourth quarter	2.42	1.38

Year Ended December 31, 2010	High	Low
First quarter	$ 6.80	$ 4.10
Second quarter	7.62	4.53
Third quarter	4.87	1.85
Fourth quarter	2.84	2.01

Stockholders

As of February 29, 2012, there were approximately 211 holders of record of an aggregate 89,592,795 shares of our common stock.

Dividend Policy

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

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Under the terms of our Amended and Restated 2005 Employee, Director and Consultant Stock Plan, or the Stock Plan, we may award shares of restricted stock to our employees, directors and consultants. These shares of restricted stock are subject to a lapsing right of repurchase by us. We may exercise this right of repurchase in the event that a restricted stock recipient s employment, directorship or consulting relationship with us terminates prior to the end of the vesting period. If we exercise this right, we are required to repay the purchase price paid by or on behalf of the recipient for the repurchased restricted shares. Repurchased shares are returned to the Stock Plan and are available for future awards under the terms of the Stock Plan. Common shares repurchased during the quarter ended December 31, 2011 were as follows:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of Shares that may Yet be Purchased Under Plans or Programs
October 2011		$		
November 2011		$		

December 2011		$

(1) Not included in the table above are 13,293 forfeited and retired shares in connection with the payment of minimum statutory withholding taxes due upon the vesting of certain stock awards or the exercise of certain stock options. In lieu of making a cash payment with respect to such withholding taxes, the holders of such stock forfeited a number of shares at the then current fair market value to pay such taxes.

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Item 6. Selected Financial Data

The following table sets forth consolidated financial data for each of the five years in the period ended December 31, 2011. The selected consolidated financial data set forth below have been derived from our audited consolidated financial statements, and may not be indicative of future operating results. The results of operations for the year ended December 31, 2010 do not include the results of Scient x for the first quarter 2010 as the acquisition closed on March 26, 2010. The selected consolidated financial data set forth below should be read in conjunction with our audited consolidated financial statements and related notes thereto found at Item 8 Financial Statements and Supplementary Data and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenues	$ 197,711	$ 171,610	$ 120,618	$ 92,181	$ 72,481
Operating loss	(24,516)	(11,789)	(10,185)	(28,419)	(20,189)
Loss from continuing operations	(22,181)	(14,433)	(13,505)	(29,688)	(20,446)
Income from discontinued operations		78	216	400	244
Net loss	$ (22,181)	$ (14,355)	$ (13,289)	$ (29,288)	$ (20,202)
Net loss per common share:					
Basic and diluted	$ (0.25)	$ (0.18)	$ (0.27)	$ (0.63)	$ (0.54)
Weighted-average shares used in computing net loss per share:					
Basic and diluted	88,798	78,590	49,292	46,290	37,283

	As of December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 20,666	$ 23,168	$ 10,085	$ 18,315	$ 25,843
Working capital	59,292	79,233	29,543	34,299	39,802
Total assets	366,692	377,016	161,888	155,548	147,240
Long-term debt, less current portion	23,802	32,474	23,631	26,488	1,954
Redeemable preferred stock	23,603	23,603	23,603	23,605	23,612
Total stockholders equity	245,328	266,434	74,829	71,469	94,850

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

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

Overview

We are a medical technology company focused on the design, development, manufacturing and marketing of products for the surgical treatment of spine disorders, with a focus on products that treat conditions that affect the aging spine. We have a comprehensive product portfolio and pipeline that addresses the cervical, thoracolumbar and intervertebral regions of the spine and covers a variety of major spinal disorders and procedures such as vertebral compression fracture, disorders related to poor bone quality, spinal stenosis and minimally invasive access techniques. Our principal product offerings are focused on the global market for orthopedic spinal disorder solution products. Our surgeons culture emphasizes collaboration with spinal surgeons to conceptualize, design and co-develop a broad range of products. We have a state-of-the-art, in-house manufacturing facility that provides us with a unique competitive advantage, and enables us to rapidly deliver solutions to meet surgeons and patients critical needs. Our products and systems are made of titanium, titanium alloy, stainless steel, cobalt chrome, ceramic, and a strong, heat resistant, radiolucent, biocompatible plastic called polyetheretherketone, or PEEK. We also sell products made of allograft, which is human tissue that surgeons can use in place of metal and PEEK. We also sell bone-grafting products that are comprised of both human tissue and synthetic materials. We believe that our products and systems have enhanced features and benefits that make them attractive to surgeons and that our broad portfolio of products and systems provide a comprehensive solution for the safe and successful surgical treatment of spine disorders. All of our implants that are sold in the U.S. that require FDA clearance have been cleared by the FDA.

Revenue and Expense Components

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

Revenues. We derive our revenues primarily from the sale of spinal surgery implants used in the treatment of spine disorders. Spinal implant products include spine screws and complementary products, vertebral body replacement devices, plates, products to treat vertebral compression fractures and bone grafting materials. Our revenues are generated by our direct sales force and independent distributors. Our products are requested directly by surgeons and shipped and billed to hospitals or surgical centers. In general, except for those countries where we have a direct sales force (Japan, France, and the United Kingdom), we use independent distributors that purchase our products and market them to their surgeon customers. A majority of our business is conducted with customers within markets in which we have experience and with payment terms that are customary. If we offer payment terms greater than our customary business terms or begin operating in a new market, revenues are deferred until the sooner of when payments become due or cash is received from the related distributors.

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

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

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

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

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

Transaction-related expense. Transaction-related expense consists of legal, accounting and financial advisory fees associated with the acquisition of Scient x.

Restructuring expense. Restructuring expense consists of severance and other personnel costs related to the reorganization of the Company s management and those costs associated with exit or disposal activities related to the acquisition of Scient x.

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

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

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

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Results of Operations

The first table below sets forth our statements of operations data for the periods presented. Statements of operations data for the year ended December 31, 2010 do not include the results of Scient x for the first quarter 2010 as the acquisition closed on March 26, 2010. Our historical results are not necessarily indicative of the operating results that may be expected in the future.

	Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Revenues	$ 197,711	$ 171,610	$ 120,618
Cost of revenues	79,168	57,657	39,606
Amortization of acquired intangible assets	1,613	1,136	
Gross profit	116,930	112,817	81,012
Operating expenses:			
Research and development	16,888	16,431	13,487
In-process research and development		2,967	6,383
Sales and marketing	75,189	66,542	49,396
General and administrative	36,367	31,078	19,333
Amortization of acquired intangible assets	2,152	1,535	
Transaction related expenses		3,671	2,598
Restructuring expenses	1,050	2,382	
Litigation settlement	9,800		
Total operating expenses	141,446	124,606	91,197
Operating loss	(24,516)	(11,789)	(10,185)
Other income (expense):			
Interest income	148	81	51
Interest expense	(3,027)	(5,946)	(3,454)
Other income (expense), net	707	1,167	210
Total other income (expense)	(2,172)	(4,698)	(3,193)
Loss from continuing operations before taxes	(26,688)	(16,487)	(13,378)
Income tax (benefit) provision	(4,507)	(2,054)	127
Loss from continuing operations	(22,181)	(14,433)	(13,505)
Income from discontinued operations, net of tax		78	216
Net loss	$ (22,181)	$ (14,355)	$ (13,289)

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

Revenues. Revenues were $197.7 million for the year ended December 31, 2011 compared to $171.6 million for the year ended December 31, 2010, representing growth of $26.1 million, or 15.2%. The increase was comprised of $13.9 million and $12.2 million of sales in the U.S. and International regions, respectively.

U.S. revenues were $133.8 million for the year ended December 31, 2011 compared to $119.9 million for the year ended December 31, 2010, representing an increase of $13.9 million, or 11.6%. The growth was due to increased sales of Alphatec products ($12.5 million) from instruments and implants ($8.3 million) and Biologics ($4.2 million) and sales of Scient x products ($1.4 million).

International revenues were $63.9 million for the year ended December 31, 2011 compared to $51.7 million for the year ended December 31, 2010, representing an increase of $12.2 million, or 23.5%. The growth was due to increased sales of Alphatec products of $9.9 million and Scient x products of $4.1 million, offset by

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$1.8 million for the recognition of deferred revenue in 2010 related to a European sale that was not repeated in 2011. The increase in revenues is inclusive of $4.6 million in favorable exchange rate effect.

Cost of revenues. Cost of revenues was $79.2 million for the year ended December 31, 2011 compared to $57.7 million for the year ended December 31, 2010, representing an increase of $21.5 million, or 37.3%. The increase was primarily related to greater product costs due to growth in sales and variation in product mix ($2.2 million), inventory write-offs resulting from the redesign of a deployment mechanism and the associated instrumentation ($2.1 million), inventory adjustments ($4.5 million), an increase in instrument depreciation costs based on a larger installed base of surgical instruments ($1.7 million), unfavorable purchase price variances ($0.5 million), unfavorable manufacturing and absorption variances related to production volume and operational costs ($6.7 million), offset by royalty and sales milestone accruals due to sales mix and timing of contractual obligations ($1.2 million), and a decrease in amortization expense related to acquired technology ($0.1 million). Our costs for Scient x products for the year ended December 31, 2011 was $5.1 million higher than such product costs for the year ended December 31, 2010 as we sold Scient x products for the full year of 2011 as compared to only nine months in 2010.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was $1.6 million for the year ended December 31, 2011 compared to $1.1 million for the year ended December 31, 2010, representing an increase of $0.5 million, or 42.0%. This expense represents amortization in the period for intangible assets associated with product related assets obtained in the Scient x acquisition.

Gross profit. Gross profit was $116.9 million for the year ended December 31, 2011 compared to $112.8 million for the year ended December 31, 2010, representing an increase of $4.1 million, or 3.6%. The increase is comprised of increased revenues from Scient x products ($0.5 million) and Alphatec products in the International region ($5.6 million), offset by increased cost of revenues related to Alphatec products ($2.0 million).

Gross margin. Gross margin was 59.1% for the year ended December 31, 2011 compared to 65.7% for the year ended December 31, 2010. The decrease of 6.6% was the result of a decrease in the gross margin of Scient x products from 44.5% to 38.7% and a decrease in Alphatec products from 69.9% to 63.3%.

Gross margin for the U.S. region was 65.1% for the year ended December 31, 2011 compared to 74.4% for the year ended December 31, 2010. The decrease of 9.4% was the result of a decrease in Scient x gross margin (19.3 percentage points) and a decrease in Alphatec gross margins (8.9 percentage points), primarily related to inventory write-offs and unfavorable manufacturing and absorption variances.

Gross margin for the International region was 46.7% for the year ended December 31, 2011 compared to 45.6% for the year ended December 31, 2010. The increase of 1.2% was the result of increased gross margin for Alphatec products (3.7 percentage points) offset by decreased gross margin for Scient x products (3.1 percentage points) primarily related to a variation in product mix and pricing.

Research and development expense. Research and development expense was $16.9 million for the year ended December 31, 2011 compared to $16.4 million for the year ended December 31, 2010, representing an increase of $0.5 million, or 2.8%. The increase was primarily related to increased European research and development activities to support the Scient x products ($0.9 million), increased testing, consulting and prototypes for new products ($2.0 million), offset by reduced activity due to the variation in the timing of the development cycle for clinical research and trials ($0.5 million) and biologics products ($1.1 million).

In-process research and development expense. IPR&D expense was $0 for the year ended December 31, 2011 compared to $3.0 million for the year ended December 31, 2010. During 2010 we incurred expenses of $2.5 million for the acquisition of technology related to stem cells, $0.4 million for the acquisition of bone-anchoring screw technology and $0.1 million for the acquisition of technology related to an anterior cervical plate system. We did not have any acquisitions of a business during 2011.

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Sales and marketing expense. Sales and marketing expense was $75.2 million for the year ended December 31, 2011 compared to $66.5 million for the year ended December 31, 2010, representing an increase of $8.6 million, or 13.0%. The increase was primarily related to expenses related to increased European selling and marketing activities in support of the Scient x products ($2.3 million), increased expense for our international sales force ($5.3 million), and increased selling and marketing activities in the U.S. to increase sales volume ($1.0 million).

General and administrative expense. General and administrative expense was $36.4 million for the year ended December 31, 2011 compared to $31.1 million for the year ended December 31, 2010, representing an increase of $5.3 million, or 17.0%. The increase was primarily a result of an expanded administrative structure to drive sales growth in both the U.S. and International regions. Specifically, human resources ($1.5 million), finance and accounting ($0.8 million), information technology ($0.5 million), legal ($0.6 million) and increased sales and use tax accruals for periods under audit ($0.7 million). Increased expenses resulting from European general and administrative activities in support of the Scient x products ($2.1 million) were partially offset by a reduction in international expenses resulting from integration efforts ($0.9 million).

Amortization of acquired intangible assets. Amortization of acquired intangible assets was $2.2 million for the year ended December 31, 2011 compared to $1.5 million for the year ended December 31, 2010, representing an increase of $0.6 million, or 40.2%. This expense represents amortization in the period for intangible assets associated with general business assets obtained in the Scient x acquisition.

Transaction-related expense. Transaction-related expense was $0 for the year ended December 31, 2011 compared to $3.7 million for the year ended December 31, 2011. The transaction-related expenses were for legal, accounting and financial advisory fees associated with the acquisition of Scient x.

Restructuring expense. Restructuring expense was $1.1 million for the year ended December 31, 2011 compared to $2.4 million for the year ended December 31, 2010, representing a decrease of $1.3 million, or 55.9%. The restructuring expenses were due to severance and other personnel costs incurred in connection with restructuring activities in the United States and Europe.

Litigation settlement. Litigation settlement expense was $9.8 million for the year ended December 31, 2011. The expense was due to a settlement agreement we entered into in December 2011 with Biomet. The amount expensed in 2011 represents the allocated value of the settlement and past royalties element due from the sale of our polyaxial screws. There was no corresponding litigation settlement expense in 2010.

Interest income. Interest income was $0.1 million for the year ended December 31, 2011 compared to $0.1 million for the year ended December 31, 2010.

Interest expense. Interest expense was $3.0 million for the year ended December 31, 2011 compared to $5.9 million for the year ended December 31, 2010, representing a decrease of $2.9 million, or 49.1%. Interest expense consisted primarily of interest related to loan agreements and lines of credit with Silicon Valley Bank and the associated amortization expenses related to loan costs. The reduction in interest expense was due to lower interest rates resulting from a different loan structure during 2011 as compared to 2010.

Other income (expense), net. Other income was $0.7 million for the year ended December 31, 2011 compared to $1.2 million for the year ended December 31, 2011, representing a decrease in income of $0.5 million, or 39.4%. The decrease was due to lower foreign currency exchange gains realized in 2011 as compared to 2010.

Income tax benefit. Income tax was a benefit of $4.5 million for the year ended December 31, 2011 compared to a benefit of $2.1 million for the year ended December 31, 2010, representing an increase of $2.4 million, or 119.4%. The income tax benefit consists primarily of income tax benefits related to a French income tax settlement and acquired Scient x operations, offset by state income taxes and the tax effect of changes in deferred tax liabilities associated with tax deductible goodwill.

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Discontinued Operations. The company entered into an agreement to sell one of its wholly owned subsidiaries, IMC Co., to a third party in April 2010 and recorded $0.1 million in income from discontinued operations, net of tax, during 2010.

Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Revenues. Revenues were $171.6 million for the year ended December 31, 2010 compared to $120.6 million for the year ended December 31, 2009, representing growth of $51.0 million, or 42.3%. The increase was comprised of $15.4 million and $35.6 million of sales in the U.S. and International regions, respectively.

U.S. revenues were $119.9 million for the year ended December 31, 2010 compared to $104.5 million for the year ended December 31, 2009, representing an increase of $15.4 million, or 14.7%. The growth was due to increased sales of Alphatec products of $10.2 million and the addition of Scient x products represent an increase of $5.2 million.

International revenues were $51.7 million for the year ended December 31, 2010 compared to $16.1 million for the year ended December 31, 2009, representing an increase of $35.6 million, or 221.1%. The growth was due to increased sales of Alphatec products of $12.0 million and the addition of Scient x products represents an increase of $25.0 million, partially offset by $1.4 million in unfavorable exchange rate effect.

Cost of revenues. Cost of revenues was $57.7 million for the year ended December 31, 2010 compared to $39.6 million for the year ended December 31, 2009, representing an increase of $18.1 million, or 45.6%. The increase was primarily due to greater product costs associated with the increased sales volume and addition of Scient x products ($15.6 million), an increase in instrument depreciation costs based on a larger installed base of surgical instruments ($3.3 million), and inventory step- up expenses related to the Scient x acquisition ($1.3 million), offset by royalty and sales milestone accruals due to sales mix, timing of contractual obligations and the expiration of the certain patents ($0.4 million), and a decrease in amortization costs due to the full amortization of older intangible assets ($1.7 million).

Amortization of acquired intangible assets. Amortization of acquired intangible assets was $1.1 million for the year ended December 31, 2010. This expense represents amortization in the period for intangible assets associated with product related assets obtained in the Scient x acquisition.

Gross profit. Gross profit was $112.8 million for the year ended December 31, 2010 compared to $81.0 million for the year ended December 31, 2009, representing an increase of $31.8 million, or 39.3%. The increase is comprised of the addition of Scient x products ($12.6 million) and increased sales of Alphatec products in the U.S. ($12.9 million) and International ($6.3 million).

Gross margin. Gross margin was 65.7% for the year ended December 31, 2010 compared to 67.2% for the year ended December 31, 2009. The decrease of 1.5 percentage points was the result of an increase in Alphatec products from 67.2% to 70.3%, offset by the addition of Scient x products at 43.5%.

Gross margin for the U.S. region was 74.4% for the year ended December 31, 2010 compared to 69.3% for the year ended December 31, 2009. The increase of 5.1 percentage points resulted from improved manufacturing efficiencies and favorable mix, partially offset by price erosion (net 3.9 percentage points), reduced royalty expenses (2.7 percentage points), lower amortization expenses (1.8 percentage points) and lower period expenses (0.9 percentage points), offset by increased instrument depreciation expense (2.1 percentage points), increased sales milestone accruals (1.2 percentage points), and increased excess and obsolete reserves as our inventory balances grow to support increased sales volume (0.9 percentage points).

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Gross margin for the International region was 45.6% for the year ended December 31, 2010 compared to 53.5% for the year ended December 31, 2009. The decrease of 7.9 percentage points resulted from the addition of Scient x products and the associated amortization of costs related to the acquisition and a variation in product mix.

Research and development expense. Research and development expense was $16.4 million for the year ended December 31, 2010 compared to $13.5 million for the year ended December 31, 2009, representing an increase of $2.9 million, or 21.8%. The increase was primarily related to increased European research and development activities ($2.1 million), and increased testing and consulting expenses for new products, specifically, Solus, PureGen and prototypes ($1.6 million), offset by decreased stock based compensation of $0.8 million primarily related to the impact of our lower stock price on non-employee R&D-related stock options.

In-process research and development expense. IPR&D expense was $3.0 million for the year ended December 31, 2010 compared to $6.4 million for the year ended December 31, 2009, representing a decrease of $3.4 million, or 53.1%. In the year ended December 31, 2010, we incurred expenses of $2.5 million related to our acquisition of technology related to stem cells, $0.4 million related to our acquisition of bone-anchoring screw technology and $0.1 million related to our acquisition of technology related to an anterior cervical plate system. In the year ended December 31, 2009, we incurred expenses of $4.1 million related to a development milestone that was achieved in connection with our intellectual property involving an expandable pedicle screw ($1.8 million in stock and $2.3 million in cash), $0.9 million in non-cash costs related to our acquisition of technology related to an anterior lumbar interbody fusion device, $0.5 million related to our acquisition of technology related to an interbody device, $0.6 million related to our acquisition of technology related to a device for the treatment of spinal stenosis ($0.25 million in cash and $0.35 million in stock (174,129 shares)), and $0.3 million combined for four IPR&D collaborations with third parties.

Sales and marketing expense. Sales and marketing expense was $66.5 million for the year ended December 31, 2010 compared to $49.4 million for the year ended December 31, 2009, representing an increase of $17.1 million, or 34.7%. The increase was primarily related to expenses related to increased European selling and marketing activities ($7.9 million), increased expenses in the Alphatec Asian subsidiary ($1.2 million) and higher commission expense ($3.2 million) due to the higher U.S. sales volume, increased selling, marketing and medical education expenses ($4.6 million) and increased stock based compensation ($0.2 million).

General and administrative expense. General and administrative expense was $31.1 million for the year ended December 31, 2010 compared to $19.3 million for the year ended December 31, 2009, representing an increase of $11.8 million, or 60.8%. The increase was primarily a result of increased European general and administrative activities ($5.6 million), increases in expenses in the Alphatec Asian subsidiary ($0.4 million), increased stock based compensation ($0.2 million) and increases in U.S. general and administrative expenses ($5.6 million). The increase in U.S. general and administrative expenses represents $1.7 million in U.S. general and administrative expenses attributed to the absence of two benefits recognized in 2009; one related to a reduction of $0.5 million in a payroll tax contingency reserve and the other related to a reduction of $1.2 million in legal expenses related to the settlement of a litigation matter. The remaining $3.9 million increase is primarily related to increased regulatory ($0.8 million), integration costs ($0.5 million) and other administrative costs, including information technology, finance and human resources ($2.6 million).

Amortization of acquired intangible assets. Amortization of acquired intangible assets was $1.5 million for the year ended December 31, 2010 compared to $0 for the year ended December 31, 2009. This expense represents amortization in the period for intangible assets associated with general business assets obtained in the Scient x acquisition.

Transaction-related expense. Transaction-related expense was $3.7 million for the year ended December 31, 2010 compared to $2.6 million for the year ended December 31, 2009, representing an increase of $1.1 million, or 41.3%. The transaction-related expenses were for legal, accounting and financial advisory fees associated with the acquisition of Scient x.

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Restructuring expense. Restructuring expense was $2.4 million for the year ended December 31, 2010 compared to $0 for the year ended December 31, 2009. The restructuring expenses were due to severance and other administrative expenses incurred in connection with restructuring activities in the United States and Europe.

Interest income. Interest income was $0.1 million for the year ended December 31, 2010 compared to $0.1 million for the year ended December 31, 2009.

Interest expense. Interest expense was $5.9 million for the year ended December 31, 2010 compared to $3.5 million for the year ended December 31, 2009, representing an increase of $2.4 million, or 72.1%. Interest expense in 2010 consisted primarily of interest related to loan agreements and lines of credit with Silicon Valley Bank and Oxford Finance Corporation and the associated amortization expenses related to loan costs. The increase in interest expense was due to a higher amount of debt outstanding in 2010.

Other income (expense), net. Other income was $1.2 million for the year ended December 31, 2010 compared to $0.2 million for the year ended December 31, 2009, representing an increase in income of $1.0 million, or 500%. The decrease was due to greater foreign currency exchange gains realized in 2010 as compared to 2009.

Income tax benefit. Income tax was a benefit of $2.1 million for the year ended December 31, 2010 compared to an expense of $0.1 million for the year ended December 31, 2009, representing an increase of $2.2 million. 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.

Discontinued Operations. The company entered into an agreement to sell one of its wholly owned subsidiaries, IMC Co., to a third party in April 2010 and recorded income from discontinued operations, net of tax, during 2010 and 2009.

Non-GAAP Financial Measures

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

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

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The following is a reconciliation of adjusted EBITDA to the most comparable GAAP measure, net loss, for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31,		
	2011	**2010**	**2009**
Net loss	$ (22,181)	$ (14,355)	$ (13,289)
Stock-based compensation	2,425	3,177	3,571
Depreciation	14,789	13,126	8,627
Amortization of intangible assets	1,322	1,449	3,329
Amortization of acquired intangible assets	3,765	2,671	
In-process research and development		2,967	6,383
Interest expense, net	2,879	5,865	3,403
Income tax (benefit) expense	(4,507)	(2,054)	127
Other (income) expense, net	(707)	(1,167)	(210)
(Income) from discontinued operations		(78)	(216)
Acquisition-related inventory step up	751	1,281	
Transaction related expenses		3,671	2,598
Restructuring expenses	1,050	2,382	
Litigation settlement	9,800		
Adjusted EBITDA	$ 9,386	$ 18,935	$ 14,323

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

The following is a reconciliation of non-GAAP net loss to the most comparable GAAP measure, net loss, for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31,		
	2011	**2010**	**2009**
Net loss	$ (22,181)	$ (14,355)	$ (13,289)
In-process research and development		2,967	6,383
Acquisition-related inventory step up	751	1,281	
Amortization of acquired intangible assets	3,765	2,671	
Transaction related expenses		3,671	2,598
Restructuring expenses	1,050	2,382	
Litigation settlement	9,800		
Non-GAAP net loss	$ (6,815)	$ (1,383)	$ (4,308)

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The following is a reconciliation of non-GAAP net loss per share to the most comparable GAAP measure, net loss per common share, for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Net loss per common share-basic and diluted	$ (0.25)	$ (0.18)	$ (0.27)
In-process research and development		0.04	0.13
Acquisition-related inventory step up	0.01	0.01	
Amortization of acquired intangible assets	0.04	0.03	
Transaction related expenses		0.05	0.05
Restructuring expenses	0.01	0.03	
Litigation settlement	0.11		
Non-GAAP net loss per common share-basic and diluted	$ (0.08)	$ (0.02)	$ (0.09)

Pro Forma Information

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

	Year Ended December 31,		
	2011	2010	2009
Pro Forma Combined:			
Revenues	$ 197,711	$ 182,945	$ 170,843
Operating loss	$ (23,466)	$ (6,892)	$ (26,478)
Net loss	$ (21,131)	$ (8,785)	$ (28,131)
Net loss per share, basic and diluted	$ (0.24)	$ (0.10)	$ (0.38)
Gross margin	59.1%	65.7%	57.6%
Pro Forma Adjusted EBITDA	$ 9,386	$ 19,528	$ 8,261

The following is a reconciliation of pro forma adjusted EBITDA to pro forma net loss for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Pro Forma net loss	$ (21,131)	$ (8,785)	$ (28,131)
Stock-based compensation	2,425	3,280	3,925
Depreciation	14,789	13,496	10,132
Amortization of intangible assets	5,087	4,961	8,645
In-process research and development		2,967	6,383
Interest expense, net	2,879	6,045	4,093
Income tax benefit	(4,507)	(2,126)	(3,070)
Other (income) expense, net	(707)	(1,975)	714
Income from discontinued operations		(78)	(216)
Acquisition-related inventory step-up	751	1,717	5,654
Litigation settlement	9,800		
Non-controlling interest		26	132
Pro Forma Adjusted EBITDA	$ 9,386	$ 19,528	$ 8,261

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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.

Liquidity and Capital Resources

At December 31, 2011, our principal sources of liquidity consisted of cash and cash equivalents of $20.7 million and accounts receivable, net of $41.7 million. Management believes that such amounts will be sufficient to fund our projected operating requirements through at least December 31, 2012.

Our Amended Credit Facility with Silicon Valley Bank, or SVB, contains financial covenants consisting of a minimum adjusted quick ratio and minimum quarterly free cash flow. In November 2011, we executed an agreement for a third amendment to the Amended Credit Facility, or, the Third Amended Credit Facility with SVB. The Third Amended Credit Facility included a waiver for non-compliance with the minimum quarterly financial covenants for the quarterly period ended September 30, 2011 and it also restructured the credit facility terms including future financial covenants. As of December 31, 2011, we were in compliance with the minimum adjusted quick ratio covenant but were not in compliance with the minimum quarterly EBITDA covenant. In February 2012, we executed a fourth amendment to the Amended Credit Facility which included a waiver from SVB for such non-compliance. (See Credit Facility and Other Debt below).

Based on our current board approved operating plan, we believe that we will be in compliance with our financial covenants of the Third Amended Credit Facility in the foreseeable future. However, there is no assurance that we will be able to do so. If we are not able to achieve our planned revenue growth or incur costs in excess of our forecasts, we may be required to substantially reduce discretionary spending, and we could be in default of the Third Amended Credit Facility. In addition to the financial covenants, the Third Amended Credit Facility contains other covenants including subjective covenants that would allow the lender to declare the loan immediately due and payable. Upon the occurrence of a covenant violation or other event of default that is not waived, the lender could elect to declare all amounts outstanding under the Third Amended Credit Facility to be immediately due and payable and terminate all commitments to extend further credit. If the lender were to accelerate the repayment of borrowings under the Third Amended Credit Facility for any reason, we may not have sufficient cash on hand to repay the amounts borrowed under the Third Amended Credit Facility and would be forced to obtain alternative financing.

If we are not able to achieve the minimum targeted revenue growth and related improvements in profitability to meet the quarterly covenants or we have other unanticipated expenditures, we may be required to attempt to seek a waiver of such covenants, renegotiate the amended credit facility, seek additional capital and/or substantially reduce discretionary spending, which could have a material adverse effect on our ability to achieve our intended business objectives. There can be no assurances that such a waiver could be obtained, that the Third Amended Credit Facility could be successfully renegotiated or that we could modify our operations to maintain liquidity. If we are unable to obtain any required waivers or amendments, the lender would have the right to exercise remedies specified in the Third Amended Credit Facility, including accelerating the repayment of debt obligations as discussed above. We may be forced to seek additional financing, which may include additional debt and/or equity financing or funding through other third party agreements. There can be no assurances that additional financing will be available on acceptable terms or available at all. Furthermore, any equity financing may result in dilution to existing stockholders and any debt financing may include restrictive covenants.

Historically, our principal sources of cash have included customer payments from the sale of our products, proceeds from the issuance of common and preferred stock and proceeds from the issuance of debt. Our principal uses of cash have included cash used in operations, acquisitions of businesses and intellectual property rights, payments relating to purchases of property and equipment and repayments of borrowings. We expect that our

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principal uses of cash in the future will be for operations, working capital, capital expenditures, and potential acquisitions. We expect that, as our revenues grow, our sales and marketing and research and development expenses will continue to grow and, as a result, we will need to generate significant net revenues to achieve profitability.

We will need to invest in working capital and surgical instruments (the costs of which are capitalized) in order to support our revenue projections through 2012. Should we not be able to achieve our revenue forecast and cash consumption starts to exceed forecasted consumption, management will need to adjust our investment in surgical instruments and manage our inventory to the decreased sales volumes. If we do not make these adjustments in a timely manner, there could be an adverse impact on our financial resources.

A substantial portion of our available cash funds is in business accounts with reputable financial institutions. However, our deposits, at times, may exceed federally insured limits. The capital markets have recently been highly volatile and there has been a lack of liquidity for certain financial instruments, especially those with exposure to mortgage-backed securities and auction rate securities. This lack of liquidity has made it difficult for the fair value of these types of instruments to be determined. We did not hold any marketable securities as of December 31, 2011.

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

Operating Activities

We generated net cash of $13.4 million in operating activities for the year ended December 31, 2011. During this period, net cash provided by operating activities primarily consisted of a net loss of $22.2 million, which was offset by an increase in working capital and other assets of $1.8 million and $33.8 million of non-cash costs including amortization, depreciation, deferred income taxes, stock-based compensation, provision for excess and obsolete inventory, litigation settlement expense and interest expense related to amortization of debt discount and issue costs. The increase in working capital and other assets of $1.8 million consisted of decreases in inventory of $1.0 million in support of the lower sales volume, decreases in prepaid expenses and other assets of $2.6 million, increases in accounts payable of $2.5 million and increases in accrued expenses and other liabilities of $1.3 million, partially offset by increases in accounts receivable of $5.0 million and decreases in deferred revenue of $0.6 million.

Investing Activities

We used net cash of $9.5 million in investing activities for the year ended December 31, 2011 primarily for the purchase of $8.2 million in surgical instruments, computer equipment, leasehold improvements and manufacturing equipment, payment for the acquisition of our Brazilian subsidiary of $0.6 million and the purchase of intangible assets of $0.7 million.

Financing Activities

We used net cash of $6.9 million from financing activities for the year ended December 31, 2011. We received proceeds from borrowings under our term loan with SVB of $10.0 million, proceeds from borrowings under our line of credit of $2.3 million and $0.1 million in cash received from the exercise of stock options. We made payments on our line of credit of $17.4 million and other principal payments on notes payable and capital lease obligations totaling $1.9 million.

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Credit Facility and Other Debt

In December 2008, we entered into a Loan and Security Agreement with SVB and Oxford Finance Corporation (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, we were required to repay the principal plus interest in 30 equal monthly installments, ending 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 our financial performance. Interest-only payments were due monthly and the principal was due at maturity in April 2012.

On March 26, 2010, we amended our Loan and Security Agreement, or as amended, the Credit Facility, with the Lenders. The working capital line of credit was increased by $10 million, to $25 million. In addition, we combined the previously existing term loan facility provided by Oxford to Scient x with our existing term loan facility. Commencing in the second quarter 2010, the amended term loan collectively could not exceed $19.5 million.

Our term loan interest rate was amended to a fixed rate of 12.0%. We were required to repay the principal plus interest in 25 equal monthly installments, ending in April 2012. 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 were due monthly and the principal was due at maturity in April 2012. The funds from the credit facility were intended to serve as a source of working capital for ongoing operations and working capital needs. In connection with the amendment, we paid debt issuance costs and other transaction fees totaling $0.8 million. The debt issuance costs were capitalized and were 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, we granted to the Lenders a first priority security interest in all of its assets, other than its owned and licensed intellectual property assets. We also agreed not to pledge or otherwise encumber our 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 us.

Commencing in the second quarter of 2010, we were 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. We were also required to maintain a cash balance with SVB equal to at least $10 million.

On October 29, 2010, we amended and restated the Credit Facility, or, the Amended Credit Facility. As part of the Amended Credit Facility, Oxford was removed as a co-lender. The Amended Credit Facility consisted of a working capital line of credit, which permitted us to borrow up to $32 million. The actual amount available was based on eligible accounts receivable and eligible inventory. The working capital line of credit carried an interest rate of the greater of 5.5% or the prime rate plus 1.5% as of January 2011, and during the fourth quarter of 2010 the prime rate plus 3.5%. Interest-only payments were due monthly and the principal was due at maturity, which occurs in October 2013. The working capital line of credit was intended to refinance our existing debt facilities and to support future working capital needs.

Upon execution of the Amended Credit Facility, we drew $17.6 million on the working capital line of credit, resulting in a total line of credit draw of $31.9 million. The funds from the working capital line of credit were used to pay off our then-existing term loans with SVB and Oxford totaling $9.5 million and Scient x s then-existing term loan of $5.3 million with Oxford. In addition, we paid early termination and other fees of $0.5 million, a final finance charge of $1.2 million and accrued monthly interest of $0.2 million. We incurred debt issuance costs on the Amended Credit Facility of $0.6 million, which included an upfront fee of

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$0.2 million paid to SVB. The debt issuance costs were capitalized and are being amortized over the term of the loan using the effective interest method. In addition, we recorded non-cash interest expense of approximately $0.5 million to write off its debt issuance costs and debt discount related to its prior term loans.

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

The Amended Credit Facility contained customary lending and reporting covenants, which, among other things, prohibit us from assuming further debt obligations and any liens, unless otherwise permitted under the Amended Credit Facility. Upon the occurrence of an event of default, which includes the failure to make payments when due, breaches of representations, warranties or covenants, the occurrence of certain insolvency events, or the occurrence of an event or change that could have a material adverse effect on us, the interest to be charged pursuant to the Amended Credit Facility will be increased to a rate that is up to five percentage points above the rate effective immediately before the event of default, and all outstanding obligations become immediately due and payable.

We were also required to maintain compliance with financial covenants consisting of a minimum adjusted quick ratio and minimum quarterly free cash flow. The minimum adjust quick ratio is defined as the sum of our cash held with SVB and 80% of eligible domestic accounts receivable divided by the Amended Credit Facility balance. Free cash flow is defined as Adjusted EBITDA (a non-GAAP term defined as net income (loss) excluding the effects of interest, taxes, depreciation, amortization, stock-based compensation and other non-recurring income or expense items, such as in-process research and development expense and acquisition related transaction and restructuring expenses, less capital expenditures and cash taxes. As of December 31, 2010, we were in compliance with the financial covenants.

In January 2011, we executed a first amendment to the Amended Credit Facility with SVB. The working capital line of credit interest rate was amended to equal the SVB prime rate plus 3.5% during the first half of 2011, the SVB prime rate plus 3.0% during the third quarter of 2011, the SVB prime rate plus 2.0% during the fourth quarter of 2011, and the greater of 5.5% or the SVB prime rate plus 1.5% thereafter. In addition, the adjusted quick ratio covenant was amended to allow for a lower minimum ratio. There was no change to the minimum quarterly free cash flow covenant requirements.

In August 2011, we executed a second amendment to the Amended Credit Facility with SVB, or, the Second Amended Credit Facility. The Second Amended Credit Facility included a waiver for non-compliance with the minimum quarterly free cash flow covenant for the quarterly period ended June 30, 2011. The working capital line of credit interest rate was amended to equal the greater of 5.5% or the SVB prime rate plus 2.0% beginning on January 1, 2012. There was no change to the financial covenant requirements. In conjunction with the Second Amended Credit Facility, we paid Silicon Valley Bank a fee of $50,000.

In December 2011, we executed a third amendment to the Amended Credit Facility, or, the Third Amended Credit Facility. The Third Amended Credit Facility included a waiver for non-compliance with the minimum quarterly financial covenants for the quarterly period ended September 30, 2011 and it also restructured the credit facility terms including future financial covenants.

The Third Amended Credit Facility consists of a $10 million term loan and a working capital line of credit which permits us to borrow up to $22 million. The actual amount available under the line of credit is based on eligible accounts receivable and eligible inventory.

The term loan carries a fixed interest rate equal to the greater of 8.5% or the SVB prime rate plus 4.5% with principal plus interest repayments due in 16 equal quarterly installments. The term loan matures October 2015 and we are subject to a prepayment penalty if the term loan is repaid prior to maturity. The funds from the term loan were used to refinance a portion of the line of credit under the Amended Credit Facility.

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The working capital line of credit carries an interest rate equal to the SVB prime rate plus 3.5%, which can be adjusted downward to the SVB prime rate plus a range of 1.0% to 3.0% depending on the result of the adjusted quick ratio covenant computed monthly. Minimum monthly interest totals $0.1 million. Interest only payments are due monthly and the principal is due at maturity, October 2013, which is consistent with the amended credit facility.

In connection with the Third Amended Credit Facility, finance charges totaling $150,000 were waived in exchange for the issuance of 93,750 warrants to SVB to purchase shares of our common stock. The warrants are immediately exercisable, can be exercised through a cashless exercise, have an exercise price of $1.60 per share and have a ten year term. We recorded the value of the warrants of $0.1 million as a debt discount. The value of the warrants was determined on the date of grant using the Black-Scholes-Merton valuation method with the following assumptions: risk free interest rate of 1.23%, volatility of 57.4%, a ten year term and no dividend yield.

Under the Third Amended Credit Facility, we are required to maintain compliance with financial covenants consisting of a quarterly minimum adjusted quick ratio and a quarterly minimum EBITDA level, as well as a maximum annual capital expenditures limit. The minimum adjust quick ratio is defined as the sum of our cash held with SVB and 80% of eligible domestic accounts receivable divided by the Third Amended Credit Facility balance. The EBITDA definition is consistent with the definition of EBITDA in the Amended Credit Facility. As of December 31, 2011, we were in compliance with the minimum adjusted quick ratio covenant but were not in compliance with the minimum quarterly EBITDA covenant.

In February 2012, we executed a fourth amendment to the Amended Credit Facility, or, the Fourth Amended Credit Facility. The Fourth Amended Credit Facility included a waiver for such non-compliance for the quarterly period ended December 31, 2011. The amendment also reduced the maximum amount available on the working capital line of credit from $22 million to $19.5 million and accelerated one of the quarterly term loan payments of $0.6 million which was due and payable upon execution of the amendment. There was no change to the financial covenant requirements from those of the Third Amended Credit Facility which are required to be met for the first quarterly period ended March 31, 2012. In conjunction with the Fourth Amended Credit Facility, we paid SVB a fee of $50,000.

During the year ended December 31, 2011, we repaid $17.4 million and drew an additional $2.3 million on the working capital line of credit. The balance of the line of credit as of December 31, 2011 was $16.9 million. Amortization of the debt discount and debt issuance costs and accretion of the finance charge, which were recorded as non-cash interest expense, totaled $0.4 million, $2.2 million and $0.9 million for the years ended December 30, 2011, 2010 and 2009, respectively. Interest expense for the term loans and our working capital line of credit, excluding debt discount and debt issuance cost amortization and accretion of the additional finance charge, totaled $2.2 million, $3.5 million and $2.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Other Debt Agreements

Alphatec Pacific has a term note payable of $0.6 million with Resona Bank, which is payable over 30 months with a 3.75% interest rate. Alphatec Pacific has additional notes payable to Japanese banks and a bond payable, bearing interest at rates ranging from 1.5% to 6.5% and maturity dates through January 2014 which are collateralized by substantially all of the assets of Alphatec Pacific and Japan Ortho Medical.

We have various capital lease arrangements. The leases bear interest at rates ranging from 4.5% to 7.4%, are generally due in monthly principal and interest installments, are collateralized by the related equipment, and have various maturity dates through January 2014.

In March 2011, we executed a $0.2 million note payable to a third party for the purchase of software licenses, bearing interest at a rate of 4.6% and a maturity date of March 2012.

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In November 2011, we executed financing arrangements totaling $0.9 million for the payment of premiums on various insurance policies. The financing agreements bear interest at a rate of 3.9% and are payable through September 2012. In 2010, we had financing agreements totaling $1.6 million for the payment of premiums on various insurance policies. The financing arrangements bear interest at a rate of 4.7% to 5.3% and were payable from March 2010 through September 2011. Such financing agreements had been fully repaid as of September 30, 2011.

In February 2010, we executed a note payable to Oracle for the purchase of software and the related support totaling $0.9 million. The note bears interest at 5.3% and has maturity date of February 2013. Payments of principal and interest are due every three months.

Scient x had 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. This note was fully repaid in 2011.

Contractual obligations and commercial commitments

Total contractual obligations and commercial commitments as of December 31, 2011 are summarized in the following table (in thousands):

		Payment Due by Year					
	Total	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
Term loan with SVB (1)	$ 10,000	$ 3,125	$ 2,500	$ 2,500	$ 1,875	$	$
Line of Credit with SVB	16,854		16,854				
Note payable for software licenses	64	64					
Note payable for insurance premiums	736	736					
Note payable to Oracle	206	206					
Notes and bond payable to Japanese banks	202	138	59	5			
Capital lease obligations	220	163	56	1			
Operating lease obligations	13,737	3,800	3,356	2,525	2,352	1,277	427
Litigation settlement obligation	18,000	7,000	4,000	4,000	3,000		
Guaranteed minimum royalty obligations	11,400	1,600	3,100	3,350	3,350		
New product development milestones (2)	10,100	6,100	4,000				
Total	$ 81,519	$ 22,932	$ 33,925	$ 12,381	$ 10,577	$ 1,277	$ 427

(1) Reflects acceleration of a term loan payment in 2012 based on February 2012 amendment to credit facility.
(2) This commitment represents payments in cash, and is subject to attaining certain development milestones such as FDA approval, product design and functionality testing requirements, which we believe are reasonably likely to be achieved in 2012 through 2013.

Real Property Leases

In February 2008, we entered into a sublease agreement, or the Sublease, for office, engineering, and research and development space, or Building 1. The Sublease term commenced May 2008 and ends on January 31, 2016. We are obligated under the Sublease to pay base rent and certain operating costs and taxes for Building 1. Monthly base rent payable by us was approximately $80,500 during the first year of the Sublease,

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increasing annually at a fixed annual rate of 2.5% to approximately $93,500 per month in the final year of the Sublease. Our rent was abated for months one through seven of the Sublease. Under the Sublease, we were required to provide the sublessor with a security deposit in the amount of approximately $93,500. Building 1 consolidated all corporate, marketing, finance, administrative, and research and development activities into one building.

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

Scient x leases office and manufacturing warehouse and distribution space in Beaurains, France. The lease term commenced in December 2002 and ends in December 2013. The monthly base rent payable by Scient x is approximately $40,000 per month, which increases annually with the cost of inflation in France.

Off-Balance Sheet Arrangements

As of December 31, 2011, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

We recognize revenue when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured. In addition, we account for revenue under provisions which set forth guidelines for the timing of revenue recognition based upon factors such as passage of title, installation, payment and customer acceptance. Determination of criteria (iii) and (iv) are based on management s judgment regarding the fixed nature of the fee charged for products delivered and the collectability of those fees. Specifically, our revenue from sales of spinal and other surgical implants is

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recognized upon receipt of written acknowledgement that the product has been used in a surgical procedure or upon shipment to third-party customers who immediately accept title to such implant. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenues recognized for any reporting period could be adversely impacted.

Deferred Revenues

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

Accounts Receivable

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

Inventories

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

Valuation of Goodwill and Intangible Assets

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

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

If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and the related amortization expense on our estimate of the useful life of the assets. Due to the numerous variables associated with our judgments and assumptions relating to the carrying value of our goodwill and intangible

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assets and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainty, and as additional information becomes known, we may change our estimate, in which case the likelihood of a material change in our reported results would increase.

The goodwill impairment test is a two-step process. The first step compares the our fair value to our 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 our goodwill to our carrying amount. Our assessment resulted in a fair value that was greater than our carrying value at December 31, 2011. In accordance with the authoritative literature, the second step of the impairment test was not required to be performed and no impairment of goodwill was recorded as of December 31, 2011.

Stock-Based Compensation

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

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

Estimated volatility is a measure of the amount by which our stock price is expected to fluctuate each year during the expected life of the award. Our estimated volatility through December 31, 2011 was based on a weighted-average volatility of our actual historical volatility since our initial public offering in June 2006 and the historical stock volatilities of similar peer entities whose stock prices were publicly available. Our calculation of estimated volatility is based in part on historical stock prices of these peer entities over a period equal to the expected life of the awards. We continue to use the historical volatility of peer entities due to the lack of sufficient historical data of our stock price since our initial public offering. Our estimated volatility may increase or decrease depending on the changes in our peer entities historical stock prices, changes in the composition of the peer entity group and changes to the expected term of our stock option awards. An increase in the estimated volatility would result in an increase to our stock-based compensation expense.

The expected term represents the period of time that awards granted are expected to be outstanding. Our estimated expected term through December 31, 2011 was calculated using a weighted-average term based on historical exercise patterns and the term from option date to full exercise for the options granted within the specified date range. An increase in the expected term would result in an increase to our stock-based compensation expense.

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

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

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

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

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

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

	Year Ended December 31,		
	2011	2010	2009
Cost of revenues	$ 180	$ 252	$ 245
Research and development	289	185	965
Sales and marketing	693	1,008	807
General and administrative	1,263	1,732	1,554
Total	$ 2,425	$ 3,177	$ 3,571
Effect on basic and diluted net loss per share	$ (0.03)	$ (0.04)	$ (0.07)

Income Taxes

We account for income taxes in accordance with provisions which set forth an asset and liability approach that requires the recognition of deferred tax assets and deferred tax liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not expected to be realized. In making such a determination, a review of all available positive and negative evidence must be considered, including scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance.

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

Recent Accounting Pronouncements

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

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

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our borrowings under our line of credit expose us to market risk related to changes in interest rates. As of December 31, 2011, our outstanding floating rate indebtedness totaled $16.9 million. The primary base interest rate is the Silicon Valley Bank prime rate. Assuming the outstanding balance on our floating rate indebtedness remains constant over a year, a 100 basis point increase in the interest rate would decrease pre-tax income and cash flow by approximately $0.2 million. Other outstanding debt consists of fixed rate instruments, including notes payable and capital leases.

Foreign Currency Risk

Our foreign currency exposure continues to grow as we expand internationally. Our exposure to foreign currency transaction gains and losses is the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the U.S. dollar, primarily the Euro and Japanese Yen, in which our revenues and profits are denominated. We do not currently engage in hedging or similar transactions to reduce these risks. Fluctuations in currency exchange rates could impact our results of operations, financial position, and cash flows.

Commodity Price Risk

We purchase raw materials that are processed from commodities, such as titanium and stainless steel. These purchases expose us to fluctuations in commodity prices. Given the historical volatility of certain commodity prices, this exposure can impact our product costs. However, because our raw material prices comprise a small portion of our cost of revenues, we have not experienced any material impact on our results of operations from changes in commodity prices. A 10% change in commodity prices would not have a material impact on our results of operations for the year ended December 31, 2011.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of

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

Management s Report on Internal Control Over Financial Reporting

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

Our management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2011.

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

Changes in Internal Control over Financial Reporting.

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Alphatec Holdings, Inc.

We have audited Alphatec Holdings, Inc. s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Alphatec Holdings, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Alphatec Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alphatec Holdings, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2011 of Alphatec Holdings, Inc. and our report dated March 2, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 2, 2012

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Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions Management, Corporate Governance Matters, Compliance with Section 16(a) of the Securities Exchange Act of 1934, and Code of Conduct and Ethics in our Proxy Statement for the 2012 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by Item 11 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions Executive Officer and Director Compensation, Compensation Discussion and Analysis, Compensation Committee Interlocks and Insider Participation, Compensation Committee Report, and Compensation Practices and Policies Relating to Risk Management in our Proxy Statement for the 2012 Annual Meeting of Stockholders.

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

The information required by Item 12 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information in our Proxy Statement for the 2012 Annual Meeting of Stockholders.

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

The information required by Item 13 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions Certain Relationships and Related Transactions, Management and Corporate Governance Matters in our Proxy Statement for the 2012 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the caption Independent Public Accountants in our Proxy Statement for the 2012 Annual Meeting of Stockholders.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

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

(1) Financial Statements:

(2) Financial Statement Schedules:

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

Item 15(a)(3) Exhibits List

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

Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
2.1	Acquisition Agreement, dated December 17, 2009, by and among the Company and certain shareholders of Scient x Groupe S.A.S. and Scient x S.A.		Form 8-K (Exhibit 2.1)	12/22/09	000-52024
3.1	Restated Certificate of Incorporation		Amendment No. 2 to Form S-1 (Exhibit 3.2)	4/20/06	333-131609
3.2	Restated Bylaws		Amendment No. 5 to Form S-1 (Exhibit 3.4)	5/26/06	333-131609

4.1	Form of Common Stock Certificate	Amendment No. 5 to Form S-1 (Exhibit 4.1)	5/26/06	333-131609
4.2	Stockholders Agreement by and among Alphatec Holdings, Inc., HealthpointCapital Partners, LP and certain investors, dated as of March 17, 2005	Amendment No. 4 to Form S-1 (Exhibit 4.2)	5/15/06	333-131609
4.3	Subscription Agreement dated as of June 4, 2009, between Alphatec Holdings, Inc. and HealthpointCapital Partners II, L.P.	Form 10-Q (Exhibit 10.2)	8/4/09	000-52024

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Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
4.4	Corporate Governance Agreement, dated December 17, 2009, between the Company and certain shareholders of Scient x Groupe S.A.S. and Scient x S.A.		Form 8-K (Exhibit 10.1)	12/22/09	000-52024
4.5	Registration Rights Agreement, dated March 26, 2010, by and among Alphatec Holdings, Inc. and the other signatories thereto		Form 8-K (Exhibit 4.1)	3/31/10	000-52024
4.6	Form of Subscription Agreement, dated as of February 9, 2010, between the Company and each of the investors in the Offering		Form 8-K (Exhibit 10.1)	2/10/10	000-52024
4.7	Warrant with Oxford Finance Corporation as the Warrantholder, dated as of December 5, 2008		Form 10-K (Exhibit 4.4)	3/4/09	000-52024
4.8	Warrant with Silicon Valley Bank as the Warrantholder, dated December 16, 2011	X			
	Lease Agreements				
10.1	Standard Industrial Lease (Net) by and between Alphatec Holdings, Inc. and H.G. Fenton Property Company, dated as of January 30, 2008		Form 10-Q (Exhibit 10.2)	5/12/08	000-52024
10.2	Sublease Agreement by and between Alphatec Holdings, Inc. and K2 Inc., dated as of February 28, 2008		Form 10-Q (Exhibit 10.1)	5/12/08	000-52024
	Loan Agreements				
10.3	Amended and Restated Loan and Security Agreement, dated as of March 26, 2010 by and among Silicon Valley Bank, Oxford Finance Corporation, Alphatec Holdings, Inc. and Alphatec Spine, Inc.		Form 10-Q (Exhibit 10.1)	5/10/10	000-52024
10.4	Loan and Security Agreement, dated as of May 29, 2009, between Oxford Finance Corporation and Scient x USA, Inc.		Form 10-Q (Exhibit 10.2)	5/10/10	000-52024
10.5	Second Amendment to Loan and Security Agreement, dated as of March 26, 2010, between Oxford Finance Corporation and Scient x USA, Inc.		Form 10-Q (Exhibit 10.3)	5/10/10	000-52024
10.6	Unconditional Guaranty, dated as of March 26, 2010 by Alphatec Spine, Inc. in favor of Oxford Finance Corporation		Form 10-Q (Exhibit 10.5)	5/10/10	000-52024
10.7	Unconditional Guaranty, dated as of March 26, 2010 by Alphatec Holdings, Inc. in favor of Oxford Finance Corporation		Form 10-Q (Exhibit 10.6)	5/10/10	000-52024

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Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
10.8	Second Amended and Restated Loan and Security Agreement, dated as of October 29, 2010 by and among Silicon Valley Bank, Alphatec Holdings, Inc. and Alphatec Spine, Inc.		Form 10-K (Exhibit 10.8)	3/4/11	000-52024
10.9	First Amendment to the Amended Loan and Security Agreement, dated as of January 31, 2011 by and among Silicon Valley Bank, Alphatec Holdings, Inc. and Alphatec Spine, Inc.		Form 10-K (Exhibit 10.9)	3/4/11	000-52024
10.10	Second Amendment to the Amended and Restated Loan and Security Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Silicon Valley Bank, dated August 5, 2011.		Form 10-Q (Exhibit 10.2)	8/8/2011	000-52024
10.11	Third Amendment to the Amended and Restated Loan and Security Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Silicon Valley Bank, dated December 16, 2011	X			
	Agreements with Respect to Collaborations, Licenses, Research and Development				
10.12	License Agreement by and between Alphatec Spine, Inc. and Cross Medical Products, Inc., dated as of April 24, 2003		Amendment No. 1 to Form S-1 (Exhibit 10.26)	3/23/06	333-131609
10.13	Supply Agreement by and between Alphatec Spine, Inc. and Invibio, Inc., dated as of October 18, 2004 and amended by Letter of Amendment in respect of the Supply Agreement, dated as of December 13, 2004		Amendment No. 4 to Form S-1 (Exhibit 10.29)	5/15/06	333-131609
10.14	Exclusive License Agreement by and between Alphatec Spine, Inc. and Stout Medical Group, LP, dated as of September 11, 2007		Form 10-Q (Exhibit 10.2)	11/9/07	000-52024
10.15	First Amendment to the Exclusive License Agreement, effective March 31, 2009 between Alphatec Spine, Inc. and Stout Medical Group LP		Form 10-Q (Exhibit 10.4)	5/5/09	000-52024
10.16	Amended and Restated License Agreement effective March 31, 2009, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Stout Medical Group LP		Form 10-Q (Exhibit 10.2)	5/5/09	000-52024
10.17	Amended and Restated Developmental Consulting Agreement, dated as of March 31, 2009, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Stout Medical Group LP		Form 10-Q (Exhibit 10.3)	5/5/09	000-52024

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Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
10.18	Exclusive License Agreement by and between Alphatec Spine, Inc. and JGMG Bengochea, LLC, dated as of September 11, 2007		Form 10-Q (Exhibit 10.1)	11/9/07	000-52024
10.19	Exclusive License Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Progressive Spinal Technologies LLC, dated as of December 18, 2007		Form 10-K (Exhibit 10.29)	3/17/08	000-52024
10.20	Amendment to Exclusive License Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Progressive Spinal Technologies LLC, dated as of January 14, 2008		Form 10-K/A (Exhibit 10.22)	7/7/09	000-52024
10.21	Second Amendment to Exclusive License Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Progressive Spinal Technologies LLC, dated as of January 12, 2009		Form 10-K/A (Exhibit 10.23)	7/7/09	000-52024
10.22	Third Amendment to Exclusive License Agreement dated as of June 30, 2009, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Progressive Spinal Technologies LLC		Form 10-Q (Exhibit 10.3)	8/4/09	000-52024
10.23	Fourth Amendment to Exclusive License Agreement dated as of December 7, 2009, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Progressive Spinal Technologies LLC		Form 10-K/A (Exhibit 10.38)	4/8/10	000-52024
10.24	Fifth Amendment to Exclusive License Agreement dated as of November 30, 2010, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Progressive Spinal Technologies LLC		Form 10-K (Exhibit 10.22)	3/4/11	000-52024
10.25	Cross License Agreement effective June 30, 2009, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and International Spinal Innovations, LLC		Form 10-Q (Exhibit 10.1)	8/4/09	000-52024
10.26	Letter Amendment between Alphatec Spine, Inc. and Invibio, Inc., dated November 24, 2010		Form 10-Q (Exhibit 10.3)	5/6/2011	000-52024
10.27	Settlement Agreement and General Release by and among Alphatec Spine, Inc., Cross Medical Products, LLC, and EBI, LLC, dated December 30, 2011	X			

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Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
10.28	Amended License Agreement between Alphatec Spine, Inc. and Cross Medical Products, LLC, dated December 30, 2011	X			
	Agreements with Officers and Directors				
10.29*	Amended and Restated Employment Agreement by and between Alphatec Holdings, Inc. and Dirk Kuyper, dated January 1, 2011		Form 10-K (Exhibit 10.24)	3/4/11	000-52024
10.30*	Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Michael O Neill, dated October 11, 2010		Form 10-Q (Exhibit 10.2)	11/8/10	000-52024
10.31*	Employment Agreement, dated March 26, 2010, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc, and Oliver Burckhardt		Form 10-Q (Exhibit 10.4)	5/10/10	000-52024
10.32*	Amended and Restated Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Peter Wulff, dated October 11, 2010.		Form 10-Q (Exhibit 10.1)	11/8/10	000-52024
10.33*	Employment Agreement by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Kermit P. Stott, dated August 13, 2007		Form 10-K (Exhibit 10.17)	3/17/08	000-52024
10.34*	Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Jens Peter Timm, dated January 28, 2008		Form 10-K (Exhibit 10.15)	3/4/09	000-52024
10.35*	Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Steve Lubischer, dated November 10, 2006		Form 10-K (Exhibit 10.27)	4/2/07	000-52024
10.36*	Amended and Restated Employment Agreement by and between Alphatec Spine, Inc. and Mitsuo Asai, dated January 14, 2011		Form 10-K (Exhibit 10.31)	3/4/11	000-52024
10.37*	Amended and Restated Employment Agreement by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Ebun S. Garner, Esq., dated July 17, 2006		Form 10-K (Exhibit 10.20)	3/17/08	000-52024
10.38*	Consulting Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Stephen H. Hochschuler, M.D., dated October 13, 2006		Form 10-K (Exhibit 10.30)	4/2/07	000-52024
10.39*	Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Patrick Ryan, dated February 18, 2011		Form 10-Q (Exhibit 10.1)	5/6/2011	000-52024

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Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
10.40*	Non-Executive Chairman Consulting Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Leslie Cross dated July 27, 2011.		Form 10-Q (Exhibit 10.1)	11/4/11	000-52024
10.41*	First Amendment to the Consulting Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Stephen H. Hochschuler, M.D.	X			
10.42*	Form of Indemnification Agreement entered into with each of the Company s non-employee directors		Form 10-Q (Exhibit 10.5)	5/5/09	000-52024
	Equity Compensation Plans				
10.43*	Amended and Restated 2005 Employee, Director and Consultant Stock Plan		Amendment No. 5 to Form S-1 (Exhibit 10.5)	5/26/06	333-131609
10.44*	Form of Non-Qualified Stock Option Agreement issued under the Amended and Restated 2005 Stock Plan		Amendment No. 2 to Form S-1 (Exhibit 10.6)	4/20/06	333-131609
10.45*	Form of Incentive Stock Option Agreement issued under the Amended and Restated 2005 Stock Plan		Amendment No. 2 to Form S-1 (Exhibit 10.7)	4/20/06	333-131609
10.46*	Form of Restricted Stock Agreement issued under the Amended and Restated 2005 Stock Plan		Amendment No. 2 to Form S-1 (Exhibit 10.8)	4/20/06	333-131609
10.47*	Summary Description of the Alphatec Holdings, Inc. 2011 Bonus Plan		Form 10-Q (Exhibit 10.2)	5/6/2011	000-52024
21.1	List of subsidiaries of the Registrant	X			
23.1	Consent of Independent Registered Public Accounting Firm	X			
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			

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101.1	XBRL Instance Document**
101.2	XBRL Taxonomy Extension Schema Document**
101.3	XBRL Taxonomy Extension Calculation Linkbase Document**
101.4	XBRL Taxonomy Extension Definition Linkbase Document**
101.5	XBRL Taxonomy Extension Label Linkbase Document**
101.6	XBRL Taxonomy Extension Presentation Linkbase Document**

(*) Management contract or compensatory plan or arrangement.
( ) Confidential treatment has been granted by the Securities and Exchange Commission as to certain portions.
** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

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

ALPHATEC HOLDINGS, INC.

Dated: March 2, 2012

By: /s/ Leslie H. Cross
Name: Leslie H. Cross
Title: Chairman and Chief Executive Officer (principal executive officer)

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

Signature	Title	Date
/s/ Mortimer Berkowitz III **Mortimer Berkowitz III**	Chairman of the Executive Committee of the Board of Directors	March 2, 2012
/s/ Michael O Neill **Michael O Neill**	Chief Financial Officer, Vice President and Treasurer (principal financial and accounting officer)	March 2, 2012
/s/ Rohit Desai **Rohit Desai**	Director	March 2, 2012
/s/ Dirk Kuyper **Dirk Kuyper**	President, Global Commercial Operations and Director	March 2, 2012
/s/ John H. Foster **John H. Foster**	Director	March 2, 2012
/s/ James R. Glynn **James R. Glynn**	Director	March 2, 2012
/s/ Stephen H. Hochschuler, M.D. **Stephen H. Hochschuler, M.D.**	Director	March 2, 2012
/s/ Siri Marshall **Siri Marshall**	Director	March 2, 2012
/s/ R. Ian Molson **R. Ian Molson**	Director	March 2, 2012

/s/ Stephen E. O Neil	Director	March 2, 2012

Stephen E. O Neil

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ALPHATEC HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Alphatec Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Alphatec Holdings, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alphatec Holdings, Inc., at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alphatec Holdings, Inc. s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 2, 2012

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ALPHATEC HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value data)

	December 31, 2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 20,666	$ 23,168
Accounts receivable, net	41,711	39,777
Inventories, net	45,916	51,635
Prepaid expenses and other current assets	6,888	6,652
Deferred income tax assets	1,248	1,592
Total current assets	116,429	122,824
Property and equipment, net	31,476	38,440
Goodwill	168,609	170,194
Intangibles, net	47,144	43,148
Other assets	3,034	2,410
Total assets	$ 366,692	$ 377,016
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 17,390	$ 15,957
Accrued expenses	32,583	22,530
Deferred revenue	2,768	3,396
Current portion of long-term debt	4,396	1,708
Total current liabilities	57,137	43,591
Long-term debt, less current portion	23,802	32,474
Other long-term liabilities	12,997	2,153
Deferred income tax liabilities	3,825	8,761
Commitments and contingencies		
Redeemable preferred stock, $0.0001 par value; 20,000 authorized at December 31, 2011 and 2010; 3,319 shares issued and outstanding at both December 31, 2011 and 2010	23,603	23,603
Stockholders equity:		
Common stock, $0.0001 par value; 200,000 authorized; 89,362 and 89,040 shares issued and outstanding at December 31, 2011 and 2010, respectively	9	9
Treasury stock, 19 shares	(97)	(97)
Additional paid-in capital	386,224	383,647
Accumulated other comprehensive loss	(2,812)	(1,310)
Accumulated deficit	(137,996)	(115,815)
Total stockholders equity	245,328	266,434
Total liabilities and stockholders equity	$ 366,692	$ 377,016

See accompanying notes.

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ALPHATEC HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2011	2010	2009
Revenues	$ 197,711	$ 171,610	$ 120,618
Cost of revenues	79,168	57,657	39,606
Amortization of acquired intangible assets	1,613	1,136	
Gross profit	116,930	112,817	81,012
Operating expenses:			
Research and development	16,888	16,431	13,487
In-process research and development		2,967	6,383
Sales and marketing	75,189	66,542	49,396
General and administrative	36,367	31,078	19,333
Amortization of acquired intangible assets	2,152	1,535	
Transaction related expenses		3,671	2,598
Restructuring expenses	1,050	2,382	
Litigation settlement	9,800		