Alphatec Holdings, Inc.
Form 10-Q
August 14, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2007

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.)**

2051 Palomar Airport Road, Suite 100

Carlsbad, CA 92011

(Address of principal executive offices, including zip code)

(760) 431-9286

(Registrant s telephone number, including area code)

N/A

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

As of August 10, 2007, there were 36,814,130 shares of the registrant s common stock outstanding.

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ALPHATEC HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

June 30, 2007

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30, 2007	December 31, 2006
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 6,249	$ 16,943
Restricted cash	3,100	1,100
Accounts receivable, net	11,724	10,583
Inventories, net	15,930	13,454
Prepaid expenses and other current assets	2,352	2,234
Deferred income tax asset	1,212	1,184
Total current assets	40,567	45,498
Property and equipment, net	12,277	12,583
Goodwill	59,501	60,389
Intangibles, net	12,996	10,185
Other assets	1,131	622
Total assets	$ 126,472	$ 129,277
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 4,929	$ 5,798
Accrued expenses	9,923	10,369
Lines of credit	2,514	3,163
Current portion of long-term debt	2,773	2,060
Total current liabilities	20,139	21,390
Long-term debt, less current portion	2,887	3,111
Other long-term liabilities	1,342	1,886
Deferred income tax liabilities	2,440	1,467
Minority interest		2,724
New Redeemable preferred stock, $0.0001 par value; 20,000 authorized at June 30, 2007 and December 31, 2006; 3,332 and 3,333 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	23,703	23,703
Stockholders equity:		
Common stock, $0.0001 par value; 200,000; 36,124 and 34,774 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	3	3
Additional paid-in capital	118,134	113,563
Accumulated other comprehensive income (loss)	(118)	111
Accumulated deficit	(42,058)	(38,681)
Total stockholders equity	75,961	74,996

Total liabilities and stockholders equity	$ 126,472	$ 129,277

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(In thousands, except per share amounts)			
Revenues	$ 18,820	$ 19,422	$ 38,370	$ 37,451
Cost of revenues	6,836	6,567	13,717	12,977
Gross profit	11,984	12,855	24,653	24,474
Operating expenses:				
Research and development	1,303	856	2,769	1,560
Sales and marketing	6,880	7,998	14,789	14,543
General and administrative	4,351	7,811	10,257	15,292
Total operating expenses	12,534	16,665	27,815	31,395
Operating loss	(550)	(3,810)	(3,162)	(6,921)
Other (expense) income:				
Interest income	130	135	318	151
Interest expense	(225)	(877)	(563)	(2,445)
Other (expense) income, net	(2)	36	87	97
Total other (expense) income	(97)	(706)	(158)	(2,197)
Loss before tax	(647)	(4,516)	(3,320)	(9,118)
Income tax provision (benefit)	56	(1,338)	57	(64)
Net loss	(703)	(3,178)	(3,377)	(9,054)
Accretion to redemption value of redeemable convertible preferred stock, Rolling common and Series C common stock		(1,508)		(3,450)
Net loss available to common stockholders	$ (703)	$ (4,686)	$ (3,377)	$ (12,504)
Net loss per common share:				
Basic and diluted	$ (0.02)	$ (0.20)	$ (0.10)	$ (0.60)
Weighted-average shares used in computing net loss per share:				
Basic and diluted	33,959	23,045	33,727	20,856

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	(In thousands)	
Operating activities:		
Net loss	$ (3,377)	$ (9,054)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,937	3,155
Stock-based compensation	(522)	3,525
Interest expense related to amortization of debt discount and revaluation of put right	149	1,925
Changes in operating assets and liabilities:		
Accounts receivable	(754)	(4,151)
Inventories	(2,426)	(2,131)
Prepaid expenses and other current assets	2	(1,225)
Income taxes receivable	(20)	(1)
Other assets	(55)	2,622
Accounts payable	(1,138)	(22)
Accrued expenses and other	(1,477)	693
Net cash (used) in operating activities	(4,681)	(4,664)
Investing activities:		
Acquisition of Alphatec Manufacturing, Inc., net of cash acquired		(5)
Acquisition of Blues Medica, net of cash acquired	213	
Investment in Noas Medical Company	(313)	
Acquisition of certain assets and liabilities of Cortek, Inc., net of cash acquired		54
Purchase of intangible assets	(2,645)	
Purchases of instruments, property and equipment	(1,929)	(5,711)
Increase in restricted cash	(2,000)	
Net cash (used) in investing activities	(6,674)	(5,662)
Financing activities:		
Net proceeds from common stock subscription	1,119	70,237
Proceeds from issuance of Rolling common, Series C common and preferred stock		223
Repayments under lines of credit, net	(560)	(2,243)
Principal payments on capital lease obligations		(407)
Proceeds from issuance of notes payable	584	3,413
Principal payments on notes payable	(1,262)	(3,159)
Stock redemption		(35,154)
Escrow proceeds	952	
Repayment of stockholder notes receivable		65
Net cash provided by financing activities	833	32,975
Effect of exchange rate changes on cash and cash equivalents	(172)	191
Net (decrease) increase in cash and cash equivalents	(10,694)	22,840

Cash and cash equivalents at beginning of period	16,943	2,180
Cash and cash equivalents at end of period	$ 6,249	$ 25,020

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

STATEMENTS OF CASH FLOWS (continued)

(unaudited)

	Six Months Ended June 30, 2007		2006	
	(in thousands)			
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	387	$	396
Accretion to redemption value of redeemable stock	$		$	3,450
Revaluation of put right (Minority interest)	$	149	$	
Purchases of property and equipment through capital leases	$		$	46

See accompanying notes to unaudited condensed consolidated financial statements.

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Alphatec Holdings, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1. The Company

Alphatec Holdings, Inc. (Alphatec, Alphatec Holdings, or the Company) was incorporated in the state of Delaware in March 2005 in order to acquire 100% of the outstanding capital stock of Alphatec Spine, Inc. (Alphatec Spine) on March 18, 2005. Alphatec Spine, formerly known as Alphatec Manufacturing, Inc., is a California corporation that was incorporated in May 1990 and is engaged in the development, manufacturing, and sale of medical devices for use in orthopedic spinal surgeries.

2. Basis of Presentation

The consolidated financial statements include the accounts of Alphatec Holdings, Alphatec Spine, Alphatec Spine s wholly owned subsidiaries, Nexmed Inc., Milverton Limited, and Alphatec Pacific, Inc. (Alphatec Pacific).

Intercompany balances and transactions have been eliminated in consolidation.

These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Alphatec s 2006 Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission (SEC).

3. Unaudited Interim Results

The accompanying interim consolidated balance sheet as of June 30, 2007, and the related statements of operations and cash flows for the three and six months ended June 30, 2007 and June 30, 2006 are unaudited. The unaudited consolidated financial statements have been prepared according to the rules and regulations of the SEC and, therefore, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted.

In the opinion of management, the accompanying unaudited consolidated financial statements for the periods presented reflect all adjustments, which are normal and recurring, necessary to fairly state the financial position, results of operations and cash flows, except for those necessary to adjust stock based compensation. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K and 10-K/A for the fiscal year ended December 31, 2006 filed with the SEC on April 2, 2007, April 30, 2007 and May 18, 2007, respectively.

Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2007.

4. Net Loss Per Share

The Company calculates net loss per share in accordance with the Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share*. Basic earnings per share (EPS) is calculated by dividing the net loss available to common stockholders by the weighted average number of common shares outstanding for the period, excluding common stock equivalents. Diluted EPS is computed by dividing the net loss available to common stockholders by the weighted average number of common shares outstanding for the period plus the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, common stock subject to repurchase by the Company and options are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive.

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	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	(In thousands, except per share amounts)			
Numerator:				
Net loss available to common stockholders	$ (703)	$ (4,686)	$ (3,377)	$ (12,504)
Denominator:				
Weighted average common shares outstanding	35,137	24,817	34,954	22,674
Weighted average unvested common shares subject to repurchase	(1,178)	(1,772)	(1,227)	(1,818)
Weighted average common shares outstanding - basic	33,959	23,045	33,727	20,856
Effect of dilutive securities:				
Options				
Weighted average common shares outstanding - diluted	33,959	23,045	33,727	20,856
Net loss per common share:				
Basic and diluted	$ (0.02)	$ (0.20)	$ (0.10)	$ (0.60)

5. Acquisition and Investment

Blues Medica Japan

On May 1, 2007, Alphatec Pacific acquired all of the outstanding capital stock of Blues Medica Japan (the Predecessor), an orthopedic medical distributor specializing in the sales of general orthopedic devices manufactured by Alphatec Spine and other unrelated parties. The results of operations of Blues Medica Japan have been included in the consolidated financial statements from the date of acquisition. The total cost of the acquisition was as follows (in thousands):

Cash paid for common stock	$ 292
Debt assumed as a result of acquisition	1,143
Common stock issued	1,068
Direct costs	15
Total purchase price	$ 2,518

The purchase price allocation is preliminary and the Company will be conducting a valuation of the acquired assets and assumed liabilities in order to allocate the purchase price in accordance with SFAS No. 141, *Business Combinations* between identifiable intangibles and goodwill in the third quarter of 2007.

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

Cash and cash equivalents	$ 505
Accounts receivable	478
Inventories	202
Prepaid expenses and other current assets	184
Property and equipment, net	795
Other assets	231
Accounts payable	(316)
Accrued and other expenses	(837)
Deferred income taxes	(883)

Net tangible assets	359
Distribution rights	2,159
Total purchase price	$ 2,518

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The fair value of the acquired tangible assets and assumed liabilities was equal to the Predecessor s carrying value on May 1, 2007, the date of acquisition. The purchase agreement includes two contingent payments to the Predecessor based upon a percentage of the 2007 and 2008 revenues. The estimated contingent payment has been included in the valuation of the distribution rights. The Company allocated the excess purchase price over the fair value of acquired net tangible to distribution rights, which will be amortized on a straight-line basis over three years. The enhancement of our Japanese distribution network was the primary factor that contributed to a purchase price resulting in the recognition of the intangible asset, distribution rights.

Noas Medical Company

In the second quarter, we purchased 7,500 shares, or 18%, of the Noas Medical Company for $0.3 million. This investment was executed to establish a relationship with this distributor.

6. Stock-Based Compensation

SFAS 123(R)

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment* using the prospective transition method and therefore, prior period results will not be restated. Under this transition method, the compensation costs related to all equity instruments granted prior to, but not yet vested as of the adoption date are recognized based on the grant-date fair value, which is estimated in accordance with the original provisions of SFAS No. 123. Compensation costs related to all equity instruments granted after January 1, 2006 are recognized at grant-date fair value of the awards in accordance with the provisions of SFAS No. 123(R). Additionally, under the provisions of SFAS No. 123(R), the Company is required to include an estimate of the number of the awards that will be forfeited in calculating compensation costs, which is recognized over the requisite service period of the awards on a straight-line basis.

In the fourth quarter of 2006 and continuing into 2007, the Company experienced significant turnover at both the executive and management levels, which affected the Company s estimated forfeiture rate. During 2007, the Company has been assessing the impact of such turnover on its forfeiture rate and in turn on stock-based compensation. As a result, the Company recorded an adjustment to reduce this expense by approximately $0.6 million in the first quarter and by approximately $0.7 million in the second quarter of 2007. In accordance with SFAS No. 123(R), the impact of the change in the estimated forfeiture rate to compute stock-based compensation is recognized through a cumulative catch-up adjustment. As disclosed in Note 17, the Company has announced a reduction in force and therefore, it will continue to assess its estimated forfeiture rate on future stock-based compensation.

In December 2006, the Company accrued stock compensation expense for terminated employees that continued to vest based upon their employment contracts. As a result of a settlement that was reached in June 2007, the Company reversed $0.6 million in such expenses.

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Valuation of Stock Option Awards

The weighted average grant-date fair value of stock options granted during the three and six months ended June 30, 2007 was $3.51 and $3.67, respectively. The assumptions used to compute the share-based compensation costs for the stock options granted during the three and six month periods ended June 30, 2007 and June 30, 2006, respectively, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Employee Stock Options				
Risk-free interest rate	4.9%	5.1%	4.5 - 4.9%	4.6 - 5.1%
Expected dividend yield	%	%	%	%
Weighted average expected life (years)	6.5	6.5	6.5	6.5
Volatility	62%	65%	62%	65%
Forfeiture rate	20%	15%	20%	15%

The risk-free interest rate assumption was based on the United States Treasury s rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The Company assumed no dividend yield because it does not expect to pay dividends for the foreseeable future. The weighted average expected life of options was calculated using the simplified method as prescribed by the SEC s Staff Accounting Bulletin (SAB) No. 107. The Company used the simplified method because it has only been in existence for a short period of time and consequently lacks relevant historical data. In addition, due to the Company s limited historical data, the estimated volatility also reflects the application of SAB No. 107, incorporating the historical volatility of comparable companies whose share prices are publicly available.

Compensation Costs

Results of operations for the three and six months ended June 30, 2007 include negative stock-based compensation costs of $0.8 million and $0.5 million, respectively. The negative expense was driven by $1.3 million reversal of previous recognized stock compensation expense driven by terminations and the $0.6 million reversal of a previous year s accrual for terminated employees that continued to vest based upon their employment contracts, which vesting ceased pursuant to a settlement that was reached in June 2007. In accordance with SFAS No. 123(R), the changes in the estimated forfeitures are recognized through a cumulative catch-up adjustment. We will continue to assess our forfeiture rate going forward. The compensation cost that has been included in the Company s condensed consolidated statement of operations for all stock-based compensation arrangements is detailed as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Cost of revenues	$ 17	$ 215	$ 97	$ 368
Research and development	50	206	108	262
Sales and marketing	99	269	174	516
General and administrative	(939)	1,514	(901)	2,379
Total	$ (773)	$ 2,204	$ (522)	$ 3,525
Effect on basic and diluted net loss per share	$ 0.02	$ (0.10)	$ 0.02	$ (0.17)
Weighted average common shares outstanding	33,959	23,045	33,727	20,856

During the three and six months ended June 30, 2007, the Company granted stock options to purchase 42,500 shares and 82,047 shares, respectively. Total unrecognized share-based compensation cost related to these options was approximately $0.1 million and $0.3 million, respectively, which is expected to be recognized over a weighted average period of approximately five years.

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7. Stock Options and Restricted Shares

Stock Options

A summary of the Company s stock options outstanding under the Stock Plan as of June 30, 2007, and the activity during the six months then ended, are as follows:

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
	(In thousands, except per share amounts)			
Options outstanding at December 31, 2006	737	$ 3.76	9.54	$ 468
Options granted	82	$ 3.67		
Options exercised	(1)	$ 0.0001		
Options forfeited	(102)	$ 4.92		
Options outstanding at June 30, 2007	716	$ 3.59	9.12	$ 464
Options vested and exercisable at June 30, 2007	35	$ 3.24	7.94	$ 49

Restricted Stock Awards

A summary of the Company s restricted stock awards outstanding under the Stock Plan as of June 30, 2007, and the activity during the six months then ended, are as follows:

	Shares	Weighted-average grant date fair value	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
	(In thousands, except per share amounts)			
Outstanding at December 31, 2006	1,663	$ 10.57	2.07	$ 17,576
Awarded	57	$ 9.18		
Released	(279)	$ 10.89		
Forfeited	(24)	$ 11.14		
Outstanding at June 30, 2007	1,417	$ 10.46	3.06	$ 14,810

Disclosure Pertaining to All Share-Based Compensation Plans

Of the options outstanding at June 30, 2007, 0.4 million of the shares are expected to vest, and have a weighted-average exercise price of $3.56 and an aggregate intrinsic value of $0.3 million. Aggregate intrinsic value is the sum of the amounts by which the quoted market price of the Company s stock exceeded the exercise price of the options at June 30, 2007 (in-the-money-options). The weighted-average grant date fair value of options granted during the three and six months ended June 30, 2007 was $3.51 and $3.67 per share, respectively. There were 82,047 options granted during the six months ended June 30, 2007. There were 678 options exercised during the six months ended June 30, 2007 at a $0.0001 weighted average exercise price.

8. Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments and consist of investments in money market funds and commercial paper with maturities of three months or less at the time of purchase.

9. Inventories

Inventories, net consist of the following (in thousands):

	June 30, 2007			December 31, 2006		
		Reserve for excess and			*Reserve for excess and*	
	Gross	*obsolete*	*Net*	*Gross*	*obsolete*	*Net*
Raw materials	$ 1,703	$ (97)	$ 1,606	$ 1,725	$ (371)	$ 1,354
Work-in process	1,304		1,304	406		406
Finished goods	22,571	(9,551)	13,020	21,637	(9,943)	11,694
Total Inventories, net	$ 25,578	$ (9,648)	$ 15,930	$ 23,768	$ (10,314)	$ 13,454

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The Company recorded charges related to the excess and obsolete reserve to cost of revenues of $0.2 million and $0.8 million for the three months ended June 30, 2007 and June 30, 2006, respectively. The Company recorded charges related to the excess and obsolete reserve to cost of revenues of $0.5 million and $1.4 million for the six months ended June 30, 2007 and June 30, 2006, respectively.

10. Segment and Geographical Information

For the three and six months ended June 30, 2007 and June 30, 2006, the Company had no single surgeon, hospital or surgical center representing greater than 10% of consolidated revenues.

During the three and six months ended June 30, 2007 and June 30, 2006, the Company operated in two geographic locations, the United States and Asia. Net revenues, attributed to the geographic location of the customer, were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
United States	$ 16,195	$ 15,871	$ 32,842	$ 30,322
Asia	2,625	3,551	5,528	7,129
Total consolidated revenues	$ 18,820	$ 19,422	$ 38,370	$ 37,451

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

	June 30, 2007	December 31, 2006
United States	$ 113,934	$ 120,584
Asia	12,538	8,693
Total consolidated assets	$ 126,472	$ 129,277

11. Related Party Transactions

The Company incurred costs of $0.2 million and $0.3 million to Foster Management Company, an entity owned by the Company s then Chief Executive Officer and Chairman of the Board, John Foster, and also a significant equity holder of HealthpointCapital, LLC, an affiliate of HealthpointCapital Partners, L.P. (HealthpointCapital), our principal stockholder for travel expenses, including the use of Foster Management Company s airplane for the six months ended June 30, 2007 and June 30, 2006, respectively.

In August 2005, Alphatec Spine entered into a stock purchase agreement with Roy Yoshimi, Alphatec Pacific s Chairman, President and Chief Executive Officer pursuant to which Alphatec Spine had an obligation to repurchase Mr. Yoshimi s Alphatec Pacific shares upon certain conditions, or upon the election of Mr. Yoshimi at any point 12 months after the completion of the Company s initial public offering. Mr. Yoshimi exercised this right on June 2, 2007 and the Company s Board of Directors elected to pay the purchase price of $2.9 million for such Alphatec Pacific shares with 804,874 shares of the Company s common stock in accordance with the stock purchase agreement governing such transaction.

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12. Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (the FASB) issued SFAS No. 159, *Fair Value Option,* which permits an entity to measure certain financial assets and financial liabilities at fair value, with unrealized gains and losses reported in earnings at each subsequent measurement date. The fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless an event specified in SFAS No. 159 occurs that results in a new election date. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on the Company s financial position, results of operations and cash flows.

13. Acquired Intangibles

Acquired intangibles consist of the following (in thousands):

	Useful lives (in years)	**June 30, 2007**	**December 31, 2006**
Developed product technology	5	$ 13,700	$ 13,700
Distribution rights	3	4,018	1,930
Scient x license agreement	8	2,603	
Supply agreement	10	225	225
		20,546	15,855
Less accumulated amortization		(7,550)	(5,670)
Total		$ 12,996	$ 10,185

Agreements with Scient x S.A.

On January 23, 2007, Alphatec Spine signed three license agreements with Scient x S.A., a French medical device manufacturer, pursuant to which Alphatec Spine has rights under Scient x S.A. s proprietary technology related to (i) the Scient x Isobar posterior dynamic stabilization rod (ii) the Scient x Stella cervical plate, and (iii) the Scient x Antelys plate-cage construct, to produce, market, sell and distribute (i) a posterior dynamic stabilization rod, (ii) a low profile cervical plate; and (iii) a plate-cage construct; respectively in the United States. Pursuant to one of the agreements, Alphatec Spine has made an upfront payment of $2.6 million and is obligated to pay a royalty on sales (with minimum royalties for a period of three years), and commit to purchase a minimum amount of Isobar inventory, at cost, for a period of two years.

Future Amortization Expense (in thousands):

Year ending December 31,	
2007 - 6 months	$ 2,230
2008	4,260
2009	3,824
2010	1,278
2011	348