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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

OR

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

Commission file number 000-52024

ALPHATEC HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-2463898**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5818 El Camino Real

Carlsbad, CA 92008

(Address of principal executive offices, including zip code)

(760) 431-9286

(Registrant s telephone number, including area code)

N/A

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

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

Yes x No ¨

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

Yes ¨ No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Small reporting company ¨

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

Yes ¨ No x

As of November 4, 2010, there were 88,572,946 shares of the registrant s common stock outstanding.

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ALPHATEC HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

September 30, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except for par value data)

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Revenues	$ 44,846	$ 30,103	$ 125,592	$ 87,358
Cost of revenues	15,546	10,028	43,516	28,311
Amortization of acquired intangible assets	373		742	
Gross profit	28,927	20,075	81,334	59,047
Operating expenses:				
Research and development	3,751	3,630	12,347	9,933
In-process research and development	2,425	50	2,967	5,833
Sales and marketing	17,052	12,088	47,571	36,618
General and administrative	7,933	3,895	21,500	15,216
Amortization of acquired intangible assets	533		1,002	
Transaction related expenses	6	1,240	3,651	1,240
Restructuring expenses	702		2,389	
Total operating expenses	32,402	20,903	91,427	68,840
Operating loss	(3,475)	(828)	(10,093)	(9,793)
Other income (expense):				
Interest income	262	16	297	58
Interest expense	(1,417)	(931)	(3,722)	(2,756)
Other income (expense), net	70	285	1,062	190
Total other income (expense)	(1,085)	(630)	(2,363)	(2,508)
Loss from continuing operations before taxes	(4,560)	(1,458)	(12,456)	(12,301)
Income tax benefit	(770)	(94)	(899)	(68)
Loss from continuing operations	(3,790)	(1,364)	(11,557)	(12,233)
Income from discontinued operations, net of tax		81	78	264
Net loss before non-controlling interest	(3,790)	(1,283)	(11,479)	(11,969)
Net loss attributable to non-controlling interest				
Net loss	$ (3,790)	$ (1,283)	$ (11,479)	$ (11,969)
Net income (loss) per common share:				
Basic and diluted net loss per share from continuing operations	$ (0.04)	$ (0.02)	$ (0.15)	$ (0.25)
Basic and diluted net income per share from discontinued operations	0.00	0.00	0.00	0.00
Basic and diluted net loss per share	$ (0.04)	$ (0.02)	$ (0.15)	$ (0.25)

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

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine Months Ended September 30, 2010	2009
Operating activities:		
Net loss	$ (11,479)	$ (11,969)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,451	8,644
Stock-based compensation	2,326	2,563
Interest expense related to amortization of debt discount and debt issuance costs	722	444
In-process research and development paid in stock	1,000	3,013
Provision for (recoveries from) doubtful accounts	764	(20)
Provision for excess and obsolete inventory	1,839	1,016
Gain on sale of property and equipment		(79)
Gain on sale of IMC Co. (discontinued operations)	(188)	
Deferred income tax (benefit) expense	(1,101)	110
Changes in operating assets and liabilities:		
Accounts receivable	(5,145)	(2,889)
Inventories	(13,297)	(5,401)
Prepaid expenses and other current assets	(1,666)	628
Other assets	268	439
Accounts payable	(1,384)	145
Accrued expenses and other	888	110
Deferred revenues	849	209
Net cash used in operating activities	(13,153)	(3,037)
Investing activities:		
Cash received in acquisition of Scient x	1,589	
Proceeds from sale of IMC Co. (discontinued operations)	329	
Proceeds from sale of Noas investment		383
Purchases of property and equipment	(11,657)	(9,657)
Purchase of intangible assets	(500)	(1,353)
Net cash used in investing activities	(10,239)	(10,627)
Financing activities:		
Exercise of stock options	211	31
Net proceeds from issuance of common stock	49,659	9,841
Borrowings under lines of credit	2,610	3,868
Repayments under lines of credit	(1,796)	(2,078)
Principal payments on capital lease obligations	(129)	(278)
Principal payments on notes payable	(7,273)	(1,499)
Net cash provided by financing activities	43,282	9,885
Effect of exchange rate changes on cash and cash equivalents	(1,121)	(426)

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

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(UNAUDITED)

(in thousands)

	Nine Months Ended September 30, 2010	2009
Supplemental cash flow information:		
Cash paid for interest	$ 2,460	$ 1,877
Cash paid for income taxes	339	165
Purchases of property and equipment in accounts payable	3,765	3,342
Financing of software and support by software provider	872	
Financing of insurance premiums by insurance provider	406	769
Issuance of common stock for litigation settlement		500
Issuance of common stock in acquisition of Scient x	151,639	
Non-cash exercise of warrants	540	360
Non-cash purchase of intangible assets	1,500	
Purchase of intangible assets in accrued expenses	1,450	

See accompanying notes to unaudited condensed consolidated financial statements.

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ALPHATEC HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The Company and Basis of Presentation

The Company

Alphatec Holdings, Inc. (Alphatec , Alphatec Holdings or the Company), through its wholly owned subsidiary, Alphatec Spine, Inc. (Alphatec Spine) designs, develops, manufactures and markets products for the surgical treatment of spine disorders, primarily focused on the aging spine. In addition to its U.S. operations, the Company also markets its products in over 50 international markets through its subsidiary, Scient x S.A. (Scient x), via a direct salesforce in France, Italy and the United Kingdom and via independent distributors in the rest of Europe, the Middle East and Africa, South America and Latin America. In Asia and Australia, the Company markets its products through its subsidiary, Alphatec Pacific, Inc. (Alphatec Pacific), and through Scient x s distributors in China, Korea and Australia.

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

Basis of Presentation

The consolidated financial statements include the accounts of Alphatec and Alphatec Spine and its wholly owned subsidiaries. The results of operations for the nine months ended September 30, 2010 include the results of Scient x beginning April 1, 2010 as the Company determined that Scient x s results of operations for the five days from the acquisition date, March 26, 2010, to the fiscal quarter end were immaterial to the Company s first quarter consolidated results. All intercompany balances and transactions have been eliminated in the condensed consolidated financial statements.

In April 2010, Alphatec Pacific entered into an agreement to sell its wholly owned subsidiary, IMC Co., to a third party. The results of operations and the gain on sale associated with this business have been presented as discontinued operations in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009. The effects of the discontinued operations were considered immaterial to the Company s condensed consolidated balance sheet at December 31, 2009 (See Note 14).

The accompanying condensed consolidated balance sheet as of December 31, 2009, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared by the Company in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) related to a quarterly report on Form 10-Q. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The interim financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the periods presented. All such adjustments are of a normal and recurring nature. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in Alphatec Holdings Annual Report on Form 10-K and Amendment No. 1 and No. 2 thereto for the fiscal year ended December 31, 2009, as filed with the SEC on March 2, 2010, April 2, 2010 and April 8, 2010, respectively.

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

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. A going concern basis of accounting contemplates the recovery of the Company s assets and the satisfaction of its liabilities in the normal course of business. Based on the Company s annual operating plan, management believes that its existing cash and cash equivalents of $28.9 million and available credit of $2.6 million at September 30, 2010 will be sufficient to fund its cash requirements through at least September 30, 2011.

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

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

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Reclassification

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

2. Summary of Significant Accounting Policies

The Company s significant accounting policies are described in Note 2 to its audited Consolidated Financial Statements for the fiscal year ended December 31, 2009, included in the Company s Annual Report on Form 10-K filed with the SEC on March 2, 2010, as amended. Except as discussed below, these accounting policies have not significantly changed during the nine months ended September 30, 2010.

Impairment Analysis for Goodwill

The Company performs its test for goodwill impairment annually during the fourth quarter and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. During the three months ended September 30, 2010, the Company concluded that a decline in its stock price and market capitalization was an indicator of a potential impairment in goodwill. As a result, the Company performed an interim impairment test on its single operating unit.

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

The Company estimated the fair value in step one based on the income approach which included discounted cash flows as well as a market approach that utilized the Company s earnings and revenue multiples. The Company s discounted cash flows required management judgment with respect to forecasted sales, launch of new products, gross margin, selling, general and administrative expenses, capital expenditures and the selection and use of an appropriate discount rate. The Company utilized its weighted average cost of capital as the discount rate for the projected future cash flows and its median revenue and earnings multiples under the market approach. The Company s assessment resulted in a fair value that was marginally greater than the Company s carrying value at September 30, 2010. In accordance with the authoritative literature, the second step of the impairment test was not required to be performed and no impairment of goodwill was recorded as of September 30, 2010.

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

The Company will re-assess goodwill impairment when it performs its annual test for impairment in December 2010. The Company will also be required to perform additional interim analysis if its stock price and market capitalization do not increase above current levels.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance that requires entities to allocate revenue in an arrangement of the delivered goods and services based on a selling price hierarchy. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management s estimate of the selling price for an undelivered item when there is no other prescribed means to determine the fair value of that undelivered item. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this standard is not expected to have a material impact on the Company s financial position or results of operations.

3. Acquisition of Scient x

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

The transaction was structured as an all stock transaction such that 100% of outstanding Scient x stock was exchanged pursuant to a fixed ratio for 24,000,000 shares of the Company s common stock. The consideration paid was reduced by a certain number of shares calculated at the closing in exchange for the payment of certain fees and expenses incurred by HealthPointCapital Partners, L.P. and HealthPointCapital Partners II, L.P. (collectively, HealthPointCapital), the Company s and Scient x s principal stockholders, in connection with the acquisition. The aggregate number of shares exchanged was 23,730,644 shares of the Company s common stock.

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

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

Fair value of Alphatec common stock issued upon closing	$ 151,639
Fair value of Scient x options replaced	1,040
Payable in exchange for reduction in shares to be paid in cash	1,618
Total estimated purchase price	$ 154,297

Under the acquisition method of accounting, the total purchase price is allocated to Scient x s net tangible and intangible assets based on their preliminary estimated fair values at the date of the completion of the acquisition and such estimates are subject to revision based on the Company s final determination of valuations associated with net tangible assets, intangible assets, deferred taxes, contingent liabilities, and the non-controlling interest. Consequently, the amounts recorded at September 30, 2010 are subject to change, and the final amounts may differ.

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

	Useful lives (in years)	Estimated Fair Value
Net tangible assets assumed		$ 3,090
Acquired intangibles:		
Core technology	10	3,632
Developed technology	8	9,552

In-process technology	Indefinite	1,749
Corporate trademarks	5	1,614
Key product trademarks	9	2,179
Customer-related intangible	15	16,009
Distribution network	10	1,614
Physician education programs	10	3,095
Goodwill		111,763
Total preliminary estimate purchase price allocation		$ 154,297

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A preliminary estimate of $3.1 million has been allocated to Scient x net tangible assets assumed and $39.4 million has been allocated to identifiable intangible assets acquired. A value of $111.8 million, representing the difference between the total purchase price and the aggregate fair values assigned to the net tangible and intangible assets acquired, less liabilities assumed, was assigned to goodwill. Alphatec acquired Scient x to expand its product offerings, increase its addressable market, increase the size of its international business, and increase its revenues primarily outside of the U.S. Alphatec also believes that significant cost reduction synergies may be realized when the integration of the acquired business is complete. These are among the factors that contributed to a purchase price for the Scient x acquisition that resulted in the recognition of goodwill. The amount recorded as acquired intangibles and goodwill is not expected to be deductible for tax purposes.

Inventories were increased by Alphatec to their estimated fair value (step up), which represented an amount equivalent to estimated selling prices less distribution related costs and a normative selling profit. Consistent with stock rotation, the inventory step up reverses in the next 14 months and is being included in the Company s post-combination financial statements. The increase to inventory was offset by a decrease in estimated fair value of redundant inventory based on the highest and best use of a similar market participant.

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

Trademarks were segregated into the categories of corporate trademarks and key product trademarks. Trademark values were calculated by estimating the present value of future royalty costs that would be avoided by a market participant due to ownership of the trademarks acquired.

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

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

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

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

Scient x is subject to legal and regulatory requirements, including but not limited to those related to taxation in each of the jurisdictions in the countries in which it operates. The Company has conducted a preliminary assessment of liabilities arising from these tax matters in each of such jurisdictions, and has recognized provisional amounts in its initial accounting for the acquisition of Scient x for the identified liabilities. However, the Company is continuing its review of these matters during the measurement period, and if new information obtained about facts and circumstances that existed at the acquisition date identifies adjustments to the liabilities initially recognized, as well as any additional liabilities that existed as the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to the provisional tax amounts initially recognized.

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

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

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

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

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

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

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

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

4. Balance Sheet Details

Accounts Receivable

Accounts receivable consist of the following (in thousands):

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

Inventories

Inventories consist of the following (in thousands):

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

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

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Property and Equipment

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

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