

Alphatec Holdings, Inc.  
Form 10-Q/A  
February 10, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A  
(Amendment No. 1 to Form 10-Q)

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-52024

ALPHATEC HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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)

20-2463898  
(I.R.S. Employer  
Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-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.

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Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a small reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No  As of August 3, 2015, there were 100,107,871 shares of the registrant's common stock outstanding.

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#### EXPLANATORY NOTE

Alphatec Holdings, Inc. (the "Company") is filing this Amendment No. 1 on Form 10-Q/A (the "Amended Form 10-Q") to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, as originally filed with the Securities and Exchange Commission (the "SEC") on August 4, 2015 (the "Original Form 10-Q"), to restate its condensed consolidated balance sheet as of June 30, 2015. In connection therewith, the Company hereby amends and replaces in their entirety Items 1, 2 and 4 in Part I, and Item 1A in Part II in the Original Form 10-Q. For the convenience of the reader, this Amended Form 10-Q sets forth the Original Form 10-Q, as modified where necessary to reflect the restatement and revisions.

The Company has determined that it failed to comply with the fixed charge coverage ratio covenant under its amended credit facility (the "Amended Credit Facility") with MidCap Financial, LLC ("MidCap") for June of 2015, which constitutes an event of default. In February 2016, MidCap provided a waiver of the Company's failure to comply with the covenant during such period. The Company can provide no assurance that it will be in compliance with the financial covenants in the future. The Company's default under the MidCap credit facility also constitutes an event of default under the Company's facility agreement (the "Facility Agreement") with Deerfield Private Design Fund II, L.P., Deerfield Private Design International II, L.P., Deerfield Special Situations Fund, L.P., and Deerfield Special Situations International Master Fund, L.P. (collectively, "Deerfield"), and such default has been waived by Deerfield in February 2016 for the period above. As a result of these events of default, the Company has determined that the condensed consolidated balance sheet as of June 30, 2015 that was included in the Original Form 10-Q erroneously classified the outstanding long-term amounts due under the MidCap Amended Credit Facility and the Deerfield Facility Agreement as long-term debt, less current portion, rather than current portion of long-term debt. The condensed consolidated balance sheet as of June 30, 2015 has been restated accordingly to reflect the revised classification of all the amounts due under the MidCap Amended Credit Facility and the Deerfield Facility Agreement. This correction had no effect on the other condensed consolidated financial statements included in the Original Form 10-Q or any other consolidated financial statements previously filed by the Company with the SEC. As required by Rule 12b-15, the Company's principal executive officer and principal financial officer are providing new currently dated certifications. Accordingly, the Company hereby amends Item 6 in Part II in the Original Form 10-Q to reflect the filing of the new certifications.

Except as described above, this Amended Form 10-Q does not amend, update or change any other items or disclosures in the Original Form 10-Q and does not purport to reflect any information or events subsequent to the filing thereof. As such, this Amended Form 10-Q speaks only as of the date the Original Form 10-Q was filed, and the Company has not undertaken herein to amend, supplement or update any information contained in the Original Form 10-Q to give effect to any subsequent events. Accordingly, this Amended Form 10-Q should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the Original Form 10-Q, including any amendment to those filings.

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ALPHATEC HOLDINGS, INC.  
QUARTERLY REPORT ON FORM 10-Q  
June 30, 2015  
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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)

|  | June 30,<br>2015<br>(Restated) | December 31,<br>2014 |
|--|--------------------------------|----------------------|
| Assets   |                                |                      |
| Current assets:  |                                |                      |
| Cash   | \$8,898                        | \$19,735             |
| Restricted cash  | 4,400                          | 4,400                |
| Accounts receivable, net   | 38,857                         | 40,440               |
| Inventories, net   | 41,237                         | 41,747               |
| Prepaid expenses and other current assets  | 4,203                          | 5,466                |
| Deferred income tax assets   | 2,479                          | 1,324                |
| Total current assets   | 100,074                        | 113,112              |
| Property and equipment, net  | 23,834                         | 26,040               |
| Goodwill   | 163,752                        | 171,333              |
| Intangibles, net   | 24,885                         | 30,259               |
| Other assets   | 1,627                          | 4,179                |
| Total assets   | \$314,172                      | \$344,923            |
| Liabilities and Stockholders' Equity   |                                |                      |
| Current liabilities:   |                                |                      |
| Accounts payable   | \$10,422                       | \$10,130             |
| Accrued expenses   | 28,147                         | 35,393               |
| Deferred revenue   | 1,001                          | 1,300                |
| Common stock warrant liabilities   | 6,985                          | 8,702                |
| Current portion of long-term debt  | 75,810                         | 8,076                |
| Total current liabilities  | 122,365                        | 63,601               |
| Long-term debt, less current portion   | 727                            | 74,597               |
| Other long-term liabilities  | 30,599                         | 32,220               |
| Deferred income tax liabilities  | 3,291                          | 1,948                |
| Redeemable preferred stock, \$0.0001 par value; 20,000 authorized at June 30, 2015 and December 31, 2014; 3,319 shares issued and outstanding at both June 30, 2015 and December 31, 2014          | 23,603                         | 23,603               |
| Stockholders' equity:  |                                |                      |
| Common stock, \$0.0001 par value; 200,000 authorized at June 30, 2015 and December 31, 2014; 100,107 and 99,856 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively | 10                             | 10                   |
| Treasury stock, at cost, 19 shares, at both June 30, 2015 and December 31, 2014  | (97                            | ) (97                |
| Additional paid-in capital   | 416,720                        | 413,921              |
| Shareholder note receivable  | (5,000                         | ) (5,000             |
| Accumulated other comprehensive loss   | (20,974                        | ) (11,316            |
| Accumulated deficit  | (257,072                       | ) (248,564           |
| Total stockholders' equity   | 133,587                        | 148,954              |
| Total liabilities and stockholders' equity   | \$314,172                      | \$344,923            |

See accompanying notes to unaudited condensed consolidated financial statements.



ALPHATEC HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (UNAUDITED)

(in thousands, except per share amounts)

|   | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | June 30,           |           | June 30,         |           |
|   | 2015               | 2014      | 2015             | 2014      |
| Revenues  | \$46,633           | \$53,167  | \$95,280         | \$102,340 |
| Cost of revenues  | 18,745             | 16,600    | 34,080           | 32,033    |
| Amortization of acquired intangible assets                      | 361                | 447       | 730              | 893       |
| Gross profit  | 27,527             | 36,120    | 60,470           | 69,414    |
| Operating expenses:   |                    |           |                  |           |
| Research and development  | 3,912              | 4,534     | 7,763            | 8,715     |
| Sales and marketing   | 16,644             | 19,837    | 34,839           | 37,896    |
| General and administrative                                      | 9,241              | 9,241     | 18,379           | 23,463    |
| Amortization of acquired intangible assets                      | 669                | 757       | 1,346            | 1,515     |
| Restructuring expenses  | (112)              | (90)      | (172)            | (686)     |
| Total operating expenses  | 30,354             | 34,279    | 62,155           | 72,275    |
| Operating income (loss)   | (2,827)            | 1,841     | (1,685)          | (2,861)   |
| Other income (expense):   |                    |           |                  |           |
| Interest income   | 12                 | 3         | 19               | 6         |
| Interest expense  | (3,040)            | (3,747)   | (6,411)          | (5,435)   |
| Other income (expense), net                                     | 2,161              | (685)     | 724              | (302)     |
| Total other income (expense)                                    | (867)              | (4,429)   | (5,668)          | (5,731)   |
| Pretax net loss   | (3,694)            | (2,588)   | (7,353)          | (8,592)   |
| Income tax provision  | 253                | 307       | 1,155            | 976       |
| Net loss  | \$(3,947)          | \$(2,895) | \$(8,508)        | \$(9,568) |
| Net loss per basic and diluted share                            | \$(0.04)           | \$(0.03)  | \$(0.09)         | \$(0.10)  |
| Shares used in calculating basic and diluted net loss per share | 99,258             | 96,922    | 99,187           | 96,860    |

See accompanying notes to unaudited condensed consolidated financial statements.

ALPHATEC HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
 (UNAUDITED)  
 (in thousands)

|  | Three Months Ended |             | Six Months Ended |              |
|--|--------------------|-------------|------------------|--------------|
|  | June 30,           |             | June 30,         |              |
|  | 2015               | 2014        | 2015             | 2014         |
| Net loss                                 | \$ (3,947          | ) \$ (2,895 | ) \$ (8,508      | ) \$ (9,568  |
| Foreign currency translation adjustments | 1,539              | (901        | ) (9,658         | ) (722       |
| Comprehensive loss                       | \$ (2,408          | ) \$ (3,796 | ) \$ (18,166     | ) \$ (10,290 |

See accompanying notes to unaudited condensed consolidated financial statements.



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

|  | Six Months Ended June 30, |            |
|--|---------------------------|------------|
|  | 2015                      | 2014       |
| Operating activities:  |                           |            |
| Net loss   | \$(8,508                  | ) \$(9,568 |
| Adjustments to reconcile net loss to net cash provided by (used in) by operating activities: |                           |            |
| Depreciation and amortization  | 9,587                     | 9,555      |
| Stock-based compensation   | 2,518                     | 2,139      |
| Interest expense related to amortization of debt discount and debt issuance costs            | 2,494                     | 2,356      |
| Provision for doubtful accounts  | 231                       | 227        |
| Provision for excess and obsolete inventory  | 1,574                     | 1,338      |
| Deferred income tax expense  | 366                       | 354        |
| Other non-cash items   | 587                       | 1,498      |
| Changes in operating assets and liabilities:   |                           |            |
| Restricted cash  | 2,200                     | (2,001     |
| Accounts receivable  | 866                       | (2,674     |
| Inventories  | (1,316                    | ) (1,825   |
| Prepaid expenses and other current assets  | 1,075                     | 2,640      |
| Other assets   | 84                        | (167       |
| Accounts payable   | 1,657                     | 2,145      |
| Accrued expenses and other   | (9,783                    | ) (31,260  |
| Deferred revenues  | (234                      | ) 193      |
| Net cash provided by (used in) operating activities  | 3,398                     | (25,050    |
| Investing activities:  |                           |            |
| Purchases of property and equipment  | (7,256                    | ) (4,875   |
| Cash received from sale of assets  | —                         | 300        |
| Net cash used in investing activities  | (7,256                    | ) (4,575   |
| Financing activities:  |                           |            |
| Borrowings under lines of credit   | 73,463                    | 79,101     |
| Repayments under lines of credit   | (76,086                   | ) (72,757  |
| Principal payments on capital lease obligations  | (384                      | ) (455     |
| Proceeds from notes payable  | —                         | 24,500     |
| Principal payments on notes payable  | (4,351                    | ) (2,901   |
| Net cash (used in) provided by financing activities  | (7,358                    | ) 27,488   |
| Effect of exchange rate changes on cash  | 379                       | (225       |
| Net decrease in cash   | (10,837                   | ) (2,362   |
| Cash at beginning of period  | 19,735                    | 21,345     |
| Cash at end of period  | \$8,898                   | \$18,983   |

See accompanying notes to unaudited condensed consolidated financial statements.



ALPHATEC HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)  
 (UNAUDITED)  
 (in thousands)

|  | Six Months Ended June 30, |          |
|--|---------------------------|----------|
|  | 2015                      | 2014     |
| Supplemental disclosure of cash flow information:        |                           |          |
| Cash paid for interest                                   | \$3,727                   | \$2,637  |
| Cash paid for income taxes                               | \$362                     | \$293    |
| Purchases of property and equipment in accounts payable  | \$400                     | \$2,470  |
| Non-cash debt discount                                   | \$—                       | \$500    |
| Initial fair value of warrant liability                  | \$—                       | \$10,368 |
| Purchase of property and equipment through capital lease | \$—                       | \$759    |

See accompanying notes to unaudited condensed consolidated financial statements.

ALPHATEC HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The Company and Basis of Presentation

The Company

Alphatec Holdings, Inc., through its wholly owned subsidiary, Alphatec Spine, Inc. and its subsidiaries (“Alphatec Spine”), designs, develops, manufactures and markets products for the surgical treatment of spine disorders. In addition to its U.S. operations, the Company also markets its products in over 50 international markets through the distribution channels of Alphatec Spine and its affiliate, Scient’x S.A.S., and its subsidiaries (“Scient’x”), via a direct sales force in Italy and the United Kingdom and via independent distributors in the rest of Europe, the Middle East and Africa. In South America and Latin America, the Company conducts its operations through its Brazilian subsidiary, Cibramed Productos Medicos. In Asia, the Company markets its products through its subsidiary, Alphatec Pacific, Inc. and its subsidiaries (“Alphatec Pacific”), via a direct sales force and independent distributors, and through distributors in other parts of Asia and Australia.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2014, 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 audited 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 in this quarterly report on Form 10-Q are adequate to make the information not misleading. The interim unaudited condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2014, which are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 that was filed with the SEC on February 26, 2015.

Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, or any other future periods.

The Company has incurred significant net losses since inception and has relied on its ability to fund its operations through revenues from the sale of its products, equity financings and debt financings. As the Company has incurred losses, successful transition to profitability is dependent upon achieving a level of revenues adequate to support the Company’s cost structure. This may not occur and, unless and until it does, the Company will continue to need to raise additional capital. The accompanying Condensed Consolidated Financial Statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. 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. Operating losses and negative cash flows may continue for at least the next year as the Company continues to incur costs related to the execution of its operating plan, introduction of new products and expansion into new geographies. The Company's amended and restated credit facility (the "Amended Credit Facility") with MidCap Financial, LLC ("MidCap") matures in August 2016, which will require the Company to refinance the Amended Credit Facility with MidCap or to seek alternative financing.

Management intends to pursue additional opportunities to raise additional capital through public or private equity offerings, debt financings, receivables financings or collaborations or partnerships with other companies to further support its planned operations. However, there is no assurance that it will be able to do so.

Restatement of Condensed Consolidated Financial Statements

The Company has determined that it failed to comply with the fixed charge coverage ratio covenant under its Amended Credit Facility with MidCap for June of 2015. The Company's default under the MidCap credit facility also constitutes an event of default under the Facility Agreement with Deerfield Private Design Fund II, L.P., Deerfield Private Design International II, L.P., Deerfield Special Situations Fund, L.P., and Deerfield Special Situations International Master Fund, L.P., (collectively "Deerfield"). In February of 2016, MidCap and Deerfield provided a waiver of the Company's failure to comply with the covenant during such period. The Company can provide no assurance that it will be in compliance with the financial covenants

in the future. As a result of these events of default, the Company has determined to restate the condensed consolidated balance sheet as of June 30, 2015 to classify the amounts due under the MidCap Amended Credit Facility and the Deerfield Facility Agreement as current portion of long-term debt, rather than long-term debt, less current portion. As a result of the correction of this error, the current portion of the long-term debt increased from \$6.8 million as previously reported to \$75.8 million and the amount of long-term debt less current portion decreased from \$69.8 million as previously reported to \$0.7 million. This correction had no effect on the other condensed consolidated financial statements included in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 that was filed with the SEC on August 4, 2015.

## 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 year ended December 31, 2014, which are included in the Company's Annual Report on Form 10-K that was filed with the SEC on February 26, 2015. Except as discussed below, these accounting policies have not significantly changed during the six months ended June 30, 2015.

### Fair Value Measurements

The carrying amount of financial instruments consisting of cash, restricted cash, trade accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses, accrued compensation and current portion of long-term debt included in the Company's consolidated financial statements are reasonable estimates of fair value due to their short maturities. Based on the borrowing rates currently available to the Company for loans with similar terms, management believes the fair value of long-term debt approximates its carrying value.

Authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company does not maintain any financial instruments that are considered to be Level 1 or Level 2 instruments as of June 30, 2015 or December 31, 2014. The Company classifies its common stock warrant liabilities within Level 3 of the fair value hierarchy because they are valued using valuation models with significant unobservable inputs. The following table provides a reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) for the six months ended June 30, 2015 (in thousands):

|                              | Common Stock<br>Warrant<br>Liabilities |
|------------------------------|--|
| Balance at December 31, 2014 | \$8,702                                |
| Changes in fair value        | (1,717 )                               |
| Balance at June 30, 2015     | \$6,985                                |

Common stock warrant liabilities are measured at fair value using the Black-Scholes option pricing valuation model. The assumptions used in the Black-Scholes option pricing valuation model for the common stock warrant liabilities were: (a) a risk-free interest rate based on the rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the remaining contractual term of the warrants; (b) an assumed dividend yield of zero based on the Company's expectation that it will not pay dividends in the foreseeable future; (c) an expected term based on the remaining contractual term of the warrants; and (d) an expected volatility based upon the Company's historical volatility over the remaining contractual term of the warrants. The significant unobservable input used in measuring the fair value of the common stock warrant liabilities associated with the Deerfield Facility Agreement (defined below) is the expected volatility. Significant increases in volatility would result in a higher fair value measurement.



## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also permitted early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is currently evaluating the impact, if any, the adoption of this standard will have on its financial statements.

In August 2014, the FASB issued guidance related to disclosures of uncertainties about an entity's ability to continue as a going concern. The guidance requires management to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. Management will be required to make this evaluation for both annual and interim reporting periods and will have to make certain disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the entity's ability to continue as a going concern. Substantial doubt exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The guidance is effective for annual periods ending after December 15, 2016 and for interim reporting periods within annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of this guidance and expects to adopt the standard for the annual reporting period ending December 31, 2016.

In April 2015, the FASB issued guidance that amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. The guidance will not change the amortization of debt issuance costs, which will continue to follow the existing accounting guidance. The guidance is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company is currently evaluating the impact of adopting this new accounting standard on its financial statements.

## 3. Select Balance Sheet Details

Accounts Receivable, net

Accounts receivable, net consist of the following (in thousands):

|                                 | June 30, 2015 | December 31,<br>2014 |
|---------------------------------|---------------|----------------------|
| Accounts receivable             | \$39,668      | \$41,233             |
| Allowance for doubtful accounts | (811)         | (793)                |
| Accounts receivable, net        | \$38,857      | \$40,440             |

Inventories, net

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

|                 | June 30, 2015 |                                       |          | December 31, 2014 |                                       |          |
|-----------------|---------------|---------------------------------------|----------|-------------------|---------------------------------------|----------|
|                 | Gross         | Reserve for<br>excess and<br>obsolete | Net      | Gross             | Reserve for<br>excess and<br>obsolete | Net      |
| Raw materials   | \$5,467       | \$—                                   | \$5,467  | \$5,020           | \$—                                   | \$5,020  |
| Work-in-process | 994           | —                                     | 994      | 1,032             | —                                     | 1,032    |
| Finished goods  | 54,524        | (19,748)                              | 34,776   | 57,020            | (21,325)                              | 35,695   |
| Inventories     | \$60,985      | \$(19,748)                            | \$41,237 | \$63,072          | \$(21,325)                            | \$41,747 |



## Property and Equipment, net

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

|  | Useful lives<br>(in years) | June 30, 2015 | December 31,<br>2014 |
|--|----------------------------|---------------|----------------------|
| Surgical instruments                           | 4                          | \$62,690      | \$62,872             |
| Machinery and equipment                        | 7                          | 15,486        | 15,382               |
| Computer equipment                             | 3                          | 3,260         | 3,180                |
| Office furniture and equipment                 | 5                          | 3,759         | 3,789                |
| Leasehold improvements                         | various                    | 3,844         | 3,841                |
| Building                                       | 39                         | 64            | 65                   |
| Land   | n/a                        | 9             | 9                    |
| Construction in progress                       | n/a                        | 982           | 1,320                |
|  |                            | 90,094        | 90,458               |
| Less accumulated depreciation and amortization |                            | (66,260       | ) (64,418            |
| Property and equipment, net                    |                            | \$23,834      | \$26,040             |

Total depreciation expense was \$2.8 million and \$3.1 million for the three months ended June 30, 2015 and 2014, respectively. Total depreciation expense was \$5.6 million and \$6.4 million for the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015, assets recorded under capital leases of \$3.2 million were included in the machinery and equipment balance and zero were included in the construction in progress balance. At December 31, 2014, assets recorded under capital leases of \$3.2 million were included in the machinery and equipment balance and \$0.6 million were included in the construction in progress balance. Amortization of assets under capital leases was included in depreciation expense.

## Intangible Assets, net

Intangible assets, net consist of the following (in thousands except for useful lives):

|                               | Useful lives<br>(in years) | June 30, 2015 | December 31,<br>2014 |
|-------------------------------|----------------------------|---------------|----------------------|
| Developed product technology  | 3-8                        | \$21,805      | \$22,526             |
| Distribution rights           | 3                          | 2,048         | 2,095                |
| Intellectual property         | 5                          | 1,004         | 1,004                |
| License agreements            | 1-7                        | 16,716        | 16,716               |
| Core technology               | 10                         | 4,174         | 4,554                |
| Trademarks and trade names    | 3-9                        | 3,322         | 3,559                |
| Customer-related              | 12-15                      | 19,405        | 20,493               |
| Distribution network          | 10-12                      | 4,027         | 4,027                |
| Physician education programs  | 10                         | 2,568         | 2,802                |
| Supply agreement              | 10                         | 225           | 225                  |
|                               |                            | 75,294        | 78,001               |
| Less accumulated amortization |                            | (50,409       | ) (47,742            |
| Intangible assets, net        |                            | \$24,885      | \$30,259             |

Total amortization expense was \$2.6 million and \$1.6 million for the three months ended June 30, 2015 and 2014, respectively. Total amortization expense was \$4.0 million and \$3.2 million for the six months ended June 30, 2015 and 2014, respectively.

On June 19, 2015 the Company entered into an exclusive distribution agreement with a third party to market a biologic product that would replace its existing NEXoss Synthetic Bone Graft (See Note 4). The Company expensed \$0.3 million as an impairment charge in cost of goods sold in the three and six months ended June 30, 2015 for the write-off of an intangible asset related to this product. Additionally, due to a revised marketing strategy for the Company's Epicage interbody fusion device, the Company evaluated the related intangible asset for impairment in June 2015. As a result of this impairment analysis the



Company expensed \$0.9 million as an impairment charge in cost of goods sold in the three and six months ended June 30, 2015 for the write-off of an intangible asset related to this product.

Future amortization expense related to intangible assets as of June 30, 2015 is as follows (in thousands):

Year Ending December 31,

|                   |          |
|-------------------|----------|
| Remainder of 2015 | \$2,324  |
| 2016              | 4,323    |
| 2017              | 4,316    |
| 2018              | 2,900    |
| 2019              | 2,713    |
| Thereafter        | 8,309    |
|                   | \$24,885 |

#### Accrued Expenses

Accrued expenses consist of the following (in thousands):

|                        | June 30, 2015 | December 31,<br>2014 |
|------------------------|---------------|----------------------|
| Legal                  | \$552         | \$967                |
| Accounting             | 1,000         | 1,262                |
| Severance              | 100           | 318                  |
| Restructuring          | 193           | 531                  |
| Sales milestones       | 127           | 107                  |
| Accrued taxes          | 678           | 1,344                |
| Deferred rent          | 573           | 785                  |
| Royalties              | 1,896         | 2,129                |
| Commissions            | 4,387         | 6,152                |
| Payroll and related    | 6,033         | 8,291                |
| Litigation settlements | 5,399         | 7,393                |
| Accrued interest       | 968           | 946                  |
| Other                  | 6,241         | 5,168                |
| Total accrued expenses | \$28,147      | \$35,393             |

#### Goodwill

The changes in the carrying amount of goodwill from December 31, 2014 through June 30, 2015 are as follows (in thousands):

|   |           |
|---|-----------|
| Balance at December 31, 2014                | \$171,333 |
| Effect of foreign exchange rate on goodwill | (7,581 )  |
| Balance at June 30, 2015                    | \$163,752 |

#### 4. License and Consulting Agreements

The Company's license and consulting agreements are described in Note 5 to its audited consolidated financial statements for the year ended December 31, 2014, which are included in its Annual Report on Form 10-K which was filed with the SEC on February 26, 2015.

#### License Agreement

In June 2015 the Company entered into an exclusive distribution agreement with a third party supplier pursuant to which the Company acquired exclusive worldwide distribution rights to market a synthetic biologic product under the Company's own brand name (the "Biologic Supply Agreement"). The Biologic Supply Agreement requires the Company to make minimum payments to the third party supplier for the Company's worldwide distribution rights under the agreement to remain exclusive.

## 5. Debt

### MidCap Facility Agreement

On August 30, 2013, the Company entered into the Amended Credit Facility with MidCap. The Amended Credit Facility amended and restated the prior credit facility that the Company had with MidCap (the "Prior Credit Facility"). Pursuant to the Amended Credit Facility, the Company increased the borrowing limit from \$50 million to \$73 million. The Company also extended the maturity to August 2016. As of June 30, 2015, the Amended Credit Facility consisted of a \$33 million term loan, \$28 million of which was drawn at closing and the remaining \$5 million of which was drawn in April 2014, and a revolving line of credit with a maximum borrowing base of \$40 million, of which \$29.2 million was outstanding under the revolving line of credit at June 30, 2015. The Company used the term loan proceeds of \$28 million drawn at closing to repay a portion of the outstanding balance on the prior revolving line of credit. The Company borrowed an additional \$5 million term loan under the Amended Credit Facility in July 2015 (see Note 14). The term loan interest rate is priced at the London Interbank Offered Rate ("LIBOR") plus 8.0%, subject to a 9.5% floor, and the revolving line of credit interest rate remains priced at LIBOR plus 6.0%, reset monthly. At June 30, 2015, the revolving line of credit carried an interest rate of 6.2% and the term loan carries an interest rate of 9.5%. The borrowing base is determined, from time to time, based on the value of domestic eligible accounts receivable and domestic eligible inventory. As collateral for the Amended Credit Facility, the Company granted MidCap a security interest in substantially all of its assets, including all accounts receivable and all securities evidencing its interests in its subsidiaries. In addition to monthly payments of interest, monthly repayments of \$0.5 million are due through maturity, with the remaining principal due upon maturity.

In connection with the execution of the Amended Credit Facility, the Company incurred an additional \$0.4 million in costs that were capitalized as debt issuance costs. At June 30, 2015, \$0.3 million remains as unamortized debt issuance costs related to the prior and Amended Credit Facility within the unaudited consolidated balance sheet, which will be amortized over the remaining term of the Amended Credit Facility.

The Amended Credit Facility includes traditional lending and reporting covenants including a fixed charge coverage ratio, a senior leverage ratio and a total leverage ratio to be maintained by the Company. The Amended Credit Facility also includes several event of default provisions, such as payment default and insolvency conditions, which could cause interest to be charged at a rate which is up to five percentage points above the rate effective immediately before the event of default or result in MidCap's right to declare all outstanding obligations immediately due and payable. In February 2013, the Company and MidCap entered into a first amendment to the Credit Facility (the "First Amendment to the Credit Facility"). The First Amendment to the Credit Facility allowed the Company to exclude payments related to an acquisition and a settlement agreement from calculation of the fixed charge coverage ratio and the senior leverage ratio. In conjunction with the First Amendment to the Credit Facility, the Company paid MidCap a fee of \$0.1 million. On August 30, 2013, the Company entered into the Amended Credit Agreement with MidCap. On March 17, 2014, the Company entered into a first amendment to the Amended Credit Facility with MidCap (the "First Amendment to the Amended Credit Facility"). Under the First Amendment to the Amended Credit Facility, MidCap gave the Company its consent to enter into the Facility Agreement (defined below) and make settlement payments in connection with the Orthotec litigation. The First Amendment to the Amended Credit Facility also added a total leverage ratio financial covenant.

The Company was in compliance with all of the covenants of the Amended Credit Facility as of June 30, 2015, except for the non-compliance disclosed in Note 1. The Company obtained a waiver in February 2016 from MidCap to cure the breach of the fixed charge coverage ratio covenant of the Amended Credit Facility for June of 2015. There is no assurance that the Company will be in compliance with the financial covenants in the future. Accordingly, as discussed in Note 1, the amounts borrowed under the Amended Credit Facility, are presented under current liabilities in the condensed consolidated balance sheet as of June 30, 2015.



#### Deerfield Facility Agreement

On March 17, 2014, the Company entered into a facility agreement (the "Facility Agreement") with Deerfield Private Design Fund II, L.P., Deerfield Private Design International II, L.P. Deerfield Special Situations Fund, L.P. and Deerfield Special Situations International Master Fund, L.P. (collectively "Deerfield"), pursuant to which Deerfield agreed to loan the Company up to \$50 million, subject to the terms and conditions set forth in the Facility Agreement. Under the terms of the Facility Agreement, the Company had the option, but was not required, upon certain conditions to draw the entire amount available under the Facility Agreement, at any time until January 30, 2015 (the "Draw Period"), provided that the initial draw be used for a portion of the payments made in connection with the Orthotec settlement described in Note 7 below. The Company has agreed to pay Deerfield, upon each disbursement of funds under the Facility Agreement, a transaction fee equal to 2.5% of the principal amount of the funds disbursed. Amounts borrowed under the Facility Agreement bear interest at a rate of 8.75% per annum and are payable on the third, fourth and fifth anniversary date of the first amount borrowed under the Facility Agreement, with the final payment due on March 20, 2019.

The Facility Agreement also contains various representations and warranties, and affirmative and negative covenants, customary for financings of this type, including restrictions on the ability of the Company and its subsidiaries to incur additional indebtedness or liens on its assets, except as permitted under the Facility Agreement. As security for the Company's repayment of its obligations under the Facility Agreement, the Company granted to Deerfield a security interest in substantially all of the Company's property and interests in property, which is subordinated to the security interest granted under the Amended Credit Facility.

In connection with the execution of the Facility Agreement on March 17, 2014, the Company issued to Deerfield warrants to purchase an aggregate of 6,250,000 shares of the Company's common stock, which are immediately exercisable and have an exercise price equal to \$1.39 per share (the "Initial Warrants"). Additionally, the Company agreed that each disbursement borrowing under the Facility Agreement be accompanied by the issuance to Deerfield of warrants to purchase up to 10,000,000 shares of the Company's common stock, in proportion to the amount of draw compared to the total \$50 million facility (the "Draw Warrants").

On March 20, 2014, the Company made an initial draw of \$20 million under the Facility Agreement and received net proceeds of \$19.5 million to fund the portion of the settlement payment obligations that were due in 2014 to Orthotec, LLC. The \$0.5 million transaction fee is recorded as a debt discount and is being amortized over the term of the draw, which ends March 20, 2019. In connection with this borrowing, the Company issued Draw Warrants to purchase 4,000,000 shares of common stock at an exercise price of \$1.39 per share, which were valued at \$4.7 million and recorded as a debt discount and is being amortized over the term of the \$20 million draw. Additionally, \$2.3 million of the value of the Initial Warrants was reclassified as a debt discount and is being amortized through interest expense over the term of the debt using the effective interest method.

On November 21, 2014, the Company made a second draw of \$6.0 million under the Facility Agreement and received net proceeds of \$5.9 million to fund a portion of the Orthotec settlement payments due through 2016. The \$0.2 million transaction fee was recorded as a debt discount and is being amortized over the remaining term of the draw, which ends March 20, 2019. In connection with this second draw, the Company issued Draw Warrants to purchase 1,200,000 shares of common stock at an exercise price of \$1.39 per share, which were valued at \$0.9 million and were recorded as a debt discount and is being amortized over the term of the debt using the effective interest method. Additionally, \$0.2 million of the value of the Initial Warrants was reclassified as a debt discount and is being amortized through interest expense over the term of the debt using the effective interest method.

As of June 30, 2015, Orthotec settlement payments of \$20.8 million have been made, leaving remaining proceeds from the funds borrowed under the Facility Agreement of \$4.6 million, of which \$4.4 million was classified as short-term restricted cash and \$0.2 million was classified as long-term restricted cash under other assets, as their use is limited under the terms of the Facility Agreement for the payments of amounts due under the Orthotec litigation settlement agreement. Additionally, a payment of \$1.1 million was made on July 1, 2015. The amounts borrowed under the Facility Agreement, which total \$26.0 million in principal as of June 30, 2015, are due in three equal annual payments beginning March 20, 2017. As a result of the Company's non-compliance with the MidCap fixed charge coverage ratio covenant, the Company was in cross-default of the Facility Agreement, for which the Company

received a waiver in February 2016 from Deerfield for the month of June 2015. There is no assurance that the Company will be in compliance with the financial covenants of the Amended Credit Facility in the foreseeable future, which would result in cross-default under the Facility Agreement, in which case Deerfield would have the right to call the debt under the Facility Agreement due immediately. Accordingly, as disclosed in Note 1, the amounts borrowed under the Facility Agreement are presented on the condensed consolidated balance sheet as of June 30, 2015 under current liabilities, net of unamortized issuance discount.

As of June 30, 2015, the outstanding Initial Warrants and Draw Warrants to purchase an aggregate of 11,450,000 shares of common stock were revalued to their fair value with a charge to other income (expense) of \$1.7 million for the six months

ended June 30, 2015. The warrant liability of \$7.0 million is recorded as common stock warrant liabilities within current liabilities on the condensed consolidated balance sheet as of June 30, 2015.

At June 30, 2015, the outstanding warrants were valued using the Black-Scholes option pricing model. This is a Level 3 measurement using the following assumptions:

|                         | June 30, 2015 |   |
|-------------------------|---------------|---|
| Risk-free interest rate | 1.5           | % |
| Dividend yield          | —             | % |
| Expected volatility     | 51            | % |
| Expected life (years)   | 4.8           |   |

Principal payments on debt are as follows as of June 30, 2015 (in thousands):

|  |         |   |
|--|---------|---|
| Year Ending December 31,                               |         |   |
| Remainder of 2015 <sup>(1)</sup>                       | \$3,134 |   |
| 2016 <sup>(1)</sup>                                    | 52,299  |   |
| 2017 <sup>(1)</sup>                                    | 8,667   |   |
| 2018 <sup>(1)</sup>                                    | 8,667   |   |
| 2019 <sup>(1)</sup>                                    | 8,667   |   |
| Thereafter   | —       |   |
| Total  | 81,434  |   |
| Add: capital lease principal payments                  | 1,401   |   |
| Less: debt discount                                    | (6,298  | ) |
| Total  | 76,537  |   |
| Less: current portion of long-term debt <sup>(1)</sup> | (75,810 | ) |
| Long-term debt, net of current portion                 | \$727   |   |

<sup>(1)</sup> The amounts above are presented based on the contractual payment schedules in each of the respective agreements. However, the debt balance under the Amended Credit Facility and the Facility Agreement was callable as of June 30, 2015 due to the event of default (See Note 1 and Note 5) and therefore, is presented as a current liability on the condensed consolidated balance sheet as of June 30, 2015.



## 6. Commitments and Contingencies

## Leases

The Company leases certain equipment under capital leases which expire on various dates through June 2017. The leases bear interest at rates ranging from 6.6% to 9.6% per annum, are generally due in monthly principal and interest installments and are collateralized by the related equipment. The Company also leases its buildings and certain equipment and vehicles under operating leases which expire on various dates through January 2019. Future minimum annual lease payments under such leases are as follows as of June 30, 2015 (in thousands):

| Year Ending December 31,                | Operating | Capital |
|---|-----------|---------|
| Remainder of 2015                       | \$1,758   | \$403   |
| 2016                                    | 2,276     | 787     |
| 2017                                    | 796       | 347     |
| 2018                                    | 252       | —       |
| 2019                                    | 128       | —       |
|   | \$5,210   | 1,537   |
| Less: amount representing interest      |           | (136)   |
| Present value of minimum lease payments |           | 1,401   |
| Current portion of capital leases       |           | (710)   |
| Capital leases, less current portion    |           | \$691   |

Rent expense under operating leases for the three months ended June 30, 2015 and 2014 was \$0.7 million and \$0.8 million, respectively. Rent expense under operating leases for the six months ended June 30, 2015 and 2014 was \$1.5 million and \$1.8 million, respectively.

## Litigation

On August 10, 2010, a purported securities class action complaint was filed in the United States District Court for the Southern District of California on behalf of all persons who purchased the Company's common stock between December 19, 2009 and August 5, 2010 against the Company and certain of its directors and officers alleging violations of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated 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, as amended (the "Securities Act"). HealthpointCapital, Jefferies & Company, Inc., Canaccord Adams, Inc., Cowen and Company, Inc., and Lazard Capital Markets LLC are also defendants in this action. The complaint alleged that the defendants made false or misleading statements and 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 sought unspecified monetary damages, attorneys' fees, and other unspecified relief. The Company filed a motion to dismiss the amended complaint on April 18, 2011. The district court granted the motion to dismiss with leave to amend on March 22, 2012. On April 19, 2012, the lead plaintiff filed a Second Amended Complaint alleging violations of Sections 10(b) and 20(a) of the Exchange Act and violations of Section 11, 12(a)(2), and 15 of the Securities Act against the same named defendants. On May 3, 2012, the Company filed a motion to dismiss the Second Amended Complaint. The district court granted that motion without leave to amend and entered final judgment in the Company's favor on March 28, 2013. On April 17, 2013, the lead plaintiff filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit. The appellate court heard oral argument on May 5, 2015. On June 5, 2015, the Ninth Circuit affirmed the district court's decision in all respects and ordered dismissal of the case. The mandate issued on June 30, 2015.

In addition to the matter described above, the Company is and may become involved in various other legal proceedings arising from its business activities. While management believes the ultimate disposition of the above matter that has been settled will not 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. The Company assesses contingencies to determine the degree of probability and range of possible loss for potential accrual or disclosure in our consolidated financial statements. An estimated loss contingency is accrued in the Company's consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. When evaluating contingencies, the Company may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed in litigation against us may be unsupported, exaggerated or unrelated to reasonably possible outcomes, and as such are not meaningful indicators of the Company's potential liability.

#### Royalties

The Company has entered into various intellectual property agreements requiring the payment of royalties based on the sale of products that utilize such intellectual property. These royalties primarily relate to products sold by Alphatec Spine and are calculated either as a percentage of net sales or in one instance on a per-unit sold basis. Royalties are included on the accompanying condensed consolidated statement of operations as a component of cost of revenues.

#### 7. Orthotec Settlement

On March 15, 2014, the Company, Orthotec, LLC and certain other parties, including certain directors and affiliate of the Company, entered into a binding term sheet (the "Binding Term Sheet") to resolve the Orthotec, LLC v. Surgiview, S.A.S, et al. matter in the Superior Court of California, Los Angeles County and related litigation matters (the "Orthotec Settlement"). Pursuant to the terms contained in the Binding Term Sheet, the Company agreed to pay Orthotec, LLC \$49 million in cash, including initial cash payments totaling \$1.75 million, which the Company previously paid in March 2014, and an additional lump sum payment of \$15.75 million, which the Company previously paid in April 2014. The Company agreed to pay the remaining \$31.5 million in 28 quarterly installments of \$1.1 million and then one additional quarterly installment of \$0.7 million, commencing October 1, 2014. As of June 30, 2015, the Company has made installment payments in the aggregate of \$19.7 million. The Company has the right to prepay the amounts due without penalty. In addition, the unpaid balance of the amounts due accrues interest at the rate of 7% per year beginning May 15, 2014 until the amounts due are paid in full. The accrued but unpaid interest will be paid in quarterly installments of \$1.1 million (or the full amount of the accrued but unpaid interest if less than \$1.1 million) following the full payment of the \$31.5 million in quarterly installments described above. No interest will accrue on the accrued interest. The Binding Term Sheet provided for mutual releases of all claims in the Orthotec, LLC v. Surgiview, S.A.S, et al. matter in the Superior Court of California, Los Angeles County and all other related litigation matters involving the Company and its directors and affiliates.

On September 26, 2014, the Company entered into a Settlement and Release Agreement, dated as of August 13, 2014, by and among the Company and its direct subsidiaries, including Alphatec Spine, Inc., Alphatec Holdings International C.V., Scient'x S.A.S. and Surgiview S.A.S.; HealthpointCapital, LLC, HealthpointCapital Partners, L.P., HealthpointCapital Partners II, L.P., John H. Foster and Mortimer Berkowitz III; and Orthotec, LLC and Patrick Bertranou, (the "Settlement Agreement"). The Settlement Agreement contains substantially the same business terms as the Binding Term Sheet set forth above, and supersedes the Binding Term Sheet.

## 8. Net Loss Per Share

Basic earnings per share ("EPS") is calculated by dividing the net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, common stock subject to repurchase by the Company, options and warrants are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive (in thousands, except per share data):

|   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30,<br>2015   | 2014       | June 30,<br>2015 | 2014       |
| Numerator:  |                    |            |                  |            |
| Net loss for basic earnings per share                         | \$(3,947           | ) \$(2,895 | ) \$(8,508       | ) \$(9,568 |
| Decrease in fair value of warrants                            | —                  | —          | —                | —          |
| Diluted net loss applicable to common stockholders            | \$(3,947           | ) \$(2,895 | ) \$(8,508       | ) \$(9,568 |
| Denominator:  |                    |            |                  |            |
| Weighted average common shares outstanding                    | 100,162            | 97,832     | 100,054          | 97,730     |
| Weighted average unvested common shares subject to repurchase | (904               | ) (910     | ) (867           | ) (870     |
| Weighted average common shares outstanding—basic              | 99,258             | 96,922     | 99,187           | 96,860     |
| Effect of dilutive securities:                                |                    |            |                  |            |
| Conversion of preferred stock                                 | —                  | —          | —                | —          |
| Options   | —                  | —          | —                | —          |
| Warrants  | —                  | —          | —                | —          |
| Weighted average common shares outstanding—diluted            | 99,258             | 96,922     | 99,187           | 96,860     |

Net loss per basic and diluted share \$(0.04 ) \$(0.03 ) \$(0.09 ) \$(0.10 )

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

|                                   | Three Months Ended |        | Six Months Ended |        |
|-----------------------------------|--------------------|--------|------------------|--------|
|                                   | June 30,<br>2015   | 2014   | June 30,<br>2015 | 2014   |
| Options to purchase common stock  | 6,954              | 7,270  | 7,135            | 7,320  |
| Unvested restricted share awards  | 904                | 910    | 867              | 870    |
| Warrants to purchase common stock | 11,544             | 10,844 | 11,544           | 10,844 |
| Total                             | 19,402             | 19,024 | 19,546           | 19,034 |

## 9. Stock Benefit Plans and Stock-Based Compensation

In February 2015, the Company granted 1,854,000 performance-based restricted stock units ("PSUs") to certain employees under its 2005 Employee, Director and Consultant Stock Plan (the "2005 Plan"). The PSUs vest based upon the Company's achievement of certain performance goals over the period from January 1, 2015 through December 31, 2017. The number of PSUs that may vest varies between 0%-200% based on the achievement of such goals. The PSUs were valued at \$1.35 per share based on the closing price of the Company's common stock on the date of grant. For purposes of measuring compensation expense, the amount of PSUs ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. The recognition of compensation expense associated with PSUs requires judgment in assessing the probability of meeting the performance goals, as well as defined criteria for assessing achievement of the performance-related goals. The awards are deemed probable of vesting as of June 30, 2015.



## 10. Income Taxes

To calculate its interim tax provision, at the end of each interim period the Company estimates the annual effective tax rate and applies that to its ordinary quarterly earnings. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences between book and tax amounts, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. The Company's unrecognized tax benefits decreased less than \$0.2 million during the six months ended June 30, 2015. The decrease in unrecognized tax benefits during the six months ended June 30, 2015 was primarily related to foreign currency fluctuations and changes in prior year uncertain tax positions within the Company's foreign subsidiaries, partially offset by an increase related to state research credits and uncertain tax positions within the Company's foreign subsidiaries. The unrecognized tax benefits at June 30, 2015 and December 31, 2014 were \$8.7 million and \$8.9 million, respectively. With the facts and circumstances currently available to the Company, it is reasonably possible that the amount that could reverse over the next 12 months is insignificant. Additionally, the French restructuring (see Note 12) may result in limitations on the Company's ability to utilize its French net operating loss carryforwards to offset future taxable income.

The income tax provision consists primarily of income tax provisions related to state income taxes, the tax effect of changes in deferred tax liabilities associated with tax deductible goodwill and operations in other foreign jurisdictions where the Company operates.

The Company is not currently under examination by the Internal Revenue Service, or by any foreign, state or local tax authorities.

## 11. Segment and Geographical Information

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company has one operating and one reportable business segment.

During the three and six months ended June 30, 2015 and 2014, the Company operated in two geographic regions, the U.S. and International, which consists of locations outside of the U.S. In the International geographic region, sales in Japan for the three and six months ended June 30, 2015 totaled \$7.9 million and \$15.4 million, respectively, which represented greater than 10 percent of the Company's consolidated revenues for such periods. In the International geographic region, sales in Japan for the three and six months ended June 30, 2014 totaled \$7.7 million and \$15.4 million, respectively, which represented greater than 10 percent of the Company's consolidated revenues for such periods.

Revenues attributed to the geographic location of the customer were as follows (in thousands):

|                             | Three Months Ended |          | Six Months Ended |           |
|-----------------------------|--------------------|----------|------------------|-----------|
|                             | June 30,<br>2015   | 2014     | June 30,<br>2015 | 2014      |
| United States               | \$27,247           | \$34,518 | \$57,714         | \$66,568  |
| International               | 19,386             | 18,649   | 37,566           | 35,772    |
| Total consolidated revenues | \$46,633           | \$53,167 | \$95,280         | \$102,340 |

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

|               | June 30,<br>2015 | December 31,<br>2014 |
|---------------|------------------|----------------------|
| United States | \$181,578        | \$200,978            |
| International | 132,594          | 143,945              |

|                           |           |           |
|---------------------------|-----------|-----------|
| Total consolidated assets | \$314,172 | \$344,923 |
|---------------------------|-----------|-----------|

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## 12. Restructuring

On September 16, 2013, the Company announced that Scient'x began a process to significantly restructure its business operations in France in an effort to improve operating efficiencies and rationalize its cost structure. The restructuring included a reduction in Scient'x's workforce and closing of the manufacturing facilities in France. The Company has recorded total costs of \$10.3 million to date associated with this restructuring, which includes employee severance, social plan benefits and related taxes, facility closing costs, manufacturing transfer costs, and contract termination costs, in accordance with ASC Topic 420, Accounting for Costs Associated with Exit or Disposal Activities, and ASC Topic 712, Non Retirement Postemployment Benefits. The Company has substantially completed the activities associated with the restructuring as of June 30, 2015, and substantially all of the costs portion have been paid.

## 13. Related Party Transactions

For the six months ended June 30, 2015 and 2014, the Company incurred expenses of less than \$0.1 million and for the six months ended June 30, 2015, the Company had a liability of \$0.2 million payable to HealthpointCapital, LLC for travel and administrative expenses.

The Company has entered into indemnification agreements with certain of its directors which are named defendants in the New York Orthotec matter (see Note 7 – Orthotec Settlement). The indemnification agreements require the Company to indemnify these individuals to the fullest extent permitted by applicable law and to advance expenses incurred by them in connection with any proceeding against them with respect to which they may be entitled to indemnification by the Company. For the six months ended June 30, 2015 and 2014, the Company incurred legal expenses of zero and less than \$0.1 million, respectively, in connection with the Company's indemnification obligations to two former directors of Scient'x in the New York Orthotec matter.

## 14. Subsequent Events

On July 6, 2015, the Company announced a restructuring of its manufacturing operations in California in an effort to improve its cost structure. The restructuring includes a reduction in workforce and closing the California manufacturing facility. The restructuring will take place over the next year and the Company estimates that it will incur termination benefits, accelerated depreciation and facility closing and other restructuring costs of up to \$4 million.

On July 10, 2015, the Company entered into a Second Amendment to the Amended Credit Facility with MidCap (the "Second Amendment") to increase the term loan commitment from \$33 million to \$38 million. The Company borrowed the additional \$5 million on July 10, 2015, which is the third term loan tranche under the Amended Credit Facility (the "Third Term Loan Tranche"). Until January 1, 2016, only interest payments are due for the Third Term Loan Tranche. Thereafter, the Company will pay an amount equal to \$0.5 million on the first day of each calendar month as an amortization payment in respect of all tranches of the term loan. The Company agreed to pay MidCap, a commitment fee equal to 1.0% of the principal amount of the funds disbursed in the Third Term Loan Tranche.

On July 10, 2015, the Company entered into a First Amendment to the Facility Agreement (the "Facility Agreement First Amendment"), with Deerfield. The Facility Agreement First Amendment permitted, among other things, the Company to enter into and borrow the additional \$5 million term loan under the Second Amendment to the Amended Credit Facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following management's discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto that appear elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on February 26, 2015. In addition to historical information the following management's discussion and analysis of our financial condition and results of operations includes forward-looking information that involves risks, uncertainties, and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, such as those set forth in our Annual Report on Form 10-K for the year ended December 31, 2014 and any updates to those risk factors filed from time to time in our subsequent periodic and current reports filed with the SEC.

Overview

We are a medical technology company focused on the design, development, manufacturing and marketing of products for the surgical treatment of spine disorders. 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 surgical procedures. Our principal product offerings are focused on the global market for orthopedic spinal disorder solutions. 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 spinal disorders.

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 and surgical centers. In general, except for those countries where we have a direct sales force (the U.S., Japan, Italy and the United Kingdom), we use independent distributors that purchase our products and market them to surgeons. A majority of our business is conducted with customers within markets in which we have experience and with payment terms that are customary to our business. If we offer payment terms greater than our customary business terms or begin operating in a new market, revenues are deferred until the earlier 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, milestones, depreciation of our surgical instruments, and the impairment and the amortization of purchased intangibles. We manufacture substantially all of the non-tissue-based 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.

**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.** In-process research and development expense consists of acquired research and development assets that were not part of an acquisition of a business and were not part of a business acquisition and were not technically feasible on the date we acquired such technology, provided that technology did not have any alternative future use at that date.

**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.

Restructuring expense. Restructuring expense consists of severance, social plan benefits and related taxes, facility closing costs, manufacturing transfer costs and contract termination incurred in connection with the reorganization of the Scient'x operations in France.

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

Income tax provision . Income tax provision consists primarily of state and foreign income taxes and the tax effect of changes in deferred tax liabilities associated with tax goodwill.

#### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed 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 we believe 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 assumption conditions.

Critical accounting policies are those that, in management's view, are most important in the portrayal of our financial condition and results of operations. Management believes there have been no material changes during the six months ended June 30, 2015 to the critical accounting policies discussed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on February 26, 2015.

#### Results of Operations

The table below sets forth certain statements of operations data for the periods indicated (in thousands). Our historical results are not necessarily indicative of the operating results that may be expected in the future.

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2015                           | 2014       | 2015                         | 2014       |
| Revenues                                   | \$46,633                       | \$53,167   | \$95,280                     | \$102,340  |
| Cost of revenues                           | 18,745                         | 16,600     | 34,080                       | 32,033     |
| Amortization of acquired intangible assets | 361                            | 447        | 730                          | 893        |
| Gross profit                               | 27,527                         | 36,120     | 60,470                       | 69,414     |
| Operating expenses:                        |                                |            |                              |            |
| Research and development                   | 3,912                          | 4,534      | 7,763                        | 8,715      |
| Sales and marketing                        | 16,644                         | 19,837     | 34,839                       | 37,896     |
| General and administrative                 | 9,241                          | 9,241      | 18,379                       | 23,463     |
| Amortization of acquired intangible assets | 669                            | 757        | 1,346                        | 1,515      |
| Restructuring expense                      | (112 )                         | (90 )      | (172 )                       | 686        |
| Total operating expenses                   | 30,354                         | 34,279     | 62,155                       | 72,275     |
| Operating income (loss)                    | (2,827 )                       | 1,841      | (1,685 )                     | (2,861 )   |
| Other income (expense):                    |                                |            |                              |            |
| Interest income                            | 12                             | 3          | 19                           | 6          |
| Interest expense                           | (3,040 )                       | (3,747 )   | (6,411 )                     | (5,435 )   |
| Other income (expense), net                | 2,161                          | (685 )     | 724                          | (302 )     |
| Total other income (expense)               | (867 )                         | (4,429 )   | (5,668 )                     | (5,731 )   |
| Pretax net loss                            | (3,694 )                       | (2,588 )   | (7,353 )                     | (8,592 )   |
| Income tax provision                       | 253                            | 307        | 1,155                        | 976        |
| Net loss                                   | \$(3,947 )                     | \$(2,895 ) | \$(8,508 )                   | \$(9,568 ) |

Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014



Revenues. Revenues were \$46.6 million for the three months ended June 30, 2015 compared to \$53.2 million for the three months ended June 30, 2014, representing a decrease of \$6.5 million, or 12.3%. The decrease was the result of a decrease in the U.S. region (\$7.3 million), partially offset by growth in the International region (\$0.7 million).

U.S. revenues were \$27.2 million for the three months ended June 30, 2015 compared to \$34.5 million for the three months ended June 30, 2014, representing a decrease of \$7.3 million, or 21.1%. The decrease was the result of lower sales direct to hospitals (\$6.9 million) and a decrease in sales to stocking distributors in the U.S. (\$0.4 million).

International revenues were \$19.4 million for the three months ended June 30, 2015 compared to \$18.6 million for the three months ended June 30, 2014, representing an increase of \$0.7 million, or 4.0%. The increase was the result of the growth in implants and instruments sales (\$4.3 million), offset by an unfavorable exchange rate effect (\$3.6 million).

Cost of revenues. Cost of revenues was \$18.7 million for the three months ended June 30, 2015 compared to \$16.6 million for the three months ended June 30, 2014, representing an increase of \$2.1 million, or 12.9%. The increase was primarily the result of one-time charges for the impairment of certain product related intangible assets and the disposal of manufacturing equipment (\$1.9 million) and an increase in product costs due to mix (\$0.4 million).

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$0.4 million for the three months ended June 30, 2015 and for the three months ended June 30, 2014. This expense represented amortization in the period for intangible assets associated with product related assets obtained in acquisitions.

Gross profit. Gross profit was \$27.5 million for the three months ended June 30, 2015 compared to \$36.1 million for the three months ended June 30, 2014, representing a decrease of \$8.6 million, or 23.8%. The decrease was due to an increase in cost of revenues (\$2.1 million) combined with the decline in sales volume (\$6.5 million).

Gross margin. Gross margin was 59.0% for the three months ended June 30, 2015 compared to 67.9% for the three months ended June 30, 2014. The decrease of 8.9 percentage points was due to increased cost of revenues resulting from one-time impairment and disposal costs charges (4.1 percentage points), increased royalty costs due to a change in product mix (1.0 percentage points) and unfavorable variation in regional mix, currency and product mix (3.8 percentage points).

Gross margin for the U.S. region was 58.7% for the three months ended June 30, 2015 compared to 71.8% for the three months ended June 30, 2014. The decrease of 13.1 percentage points was due to increased cost of revenues resulting from one-time charges (7.0 percentage points), unfavorable variation in pricing and product mix (3.3 percentage points), increased royalty costs due to a change in product mix (1.6 percentage points), increased depreciation expense as a percentage of revenue (0.6 percentage points) and an increase in inventory reserves and adjustments (0.6 percentage points).

Gross margin for the International region was 59.5% for the three months ended June 30, 2015 compared to 60.8% for the three months ended June 30, 2014. The decrease of 1.3 percentage points was due primarily to unfavorable variation in pricing and product mix.

Research and development expense. Research and development expense was \$3.9 million for the three months ended June 30, 2015 compared to \$4.5 million for the three months ended June 30, 2014, representing a decrease of \$0.6 million, or 13.7%. The decrease was related to the timing of development activities and product launch schedules.

Sales and marketing expense. Sales and marketing expense was \$16.6 million for the three months ended June 30, 2015 compared to \$19.8 million for the three months ended June 30, 2014, representing a decrease of \$3.2 million, or 16.1%. The decrease was primarily the result of the timing of marketing activity (\$1.1 million) and a decrease in commission expense due to reduction in U.S. regional revenue (\$2.1 million).

General and administrative expense. General and administrative expense was \$9.2 million for the three months ended June 30, 2015 and for the three months ended June 30, 2014.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$0.7 million for the three months ended June 30, 2015 compared to \$0.8 million for the three months ended June 30, 2014. This expense represents amortization in the period for intangible assets associated with general business assets obtained in acquisitions.

Restructuring expense. Restructuring expense was a credit of \$0.1 million for the three months ended June 30, 2015 and June 30, 2014. In September 2013, we announced that Scient'x had begun a process to significantly restructure its business operations in France in an effort to improve operating efficiencies and rationalize its cost structure. As of June 30, 2015 substantially all of the activities associated with the Scient'x restructuring are completed and substantially all of the costs associated with that restructuring have been paid.

Interest expense, net. Interest expense, net, was \$3.0 million for the three months ended June 30, 2015 and \$3.7 million for the three months ended June 30, 2014 representing a decrease of \$0.7 million, or 18.9%. The decrease was primarily due to lower debt offering cost amortization related to the Deerfield facility.

Other income (expense), net. Other income (expense) was net income of \$2.2 million for the three months ended June 30, 2015 compared to net expense of \$0.7 million for the three months ended June 30, 2014, representing an increase in income of \$2.9 million. The increase in income was due primarily to a decrease in the fair value of common stock warrant liability (\$2.8 million) and net favorable foreign currency exchange results realized in 2015 due to having non-functional currency denominated assets and liabilities on subsidiaries books (\$0.1 million). Income tax provision. Income tax provision was \$0.3 million for the three months ended June 30, 2015 and for the three months ended June 30, 2014. The income tax provision in 2015 and 2014 consists primarily of state and foreign income taxes and the tax effect of changes in deferred tax liabilities associated with tax deductible goodwill.

Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014

Revenues. Revenues were \$95.3 million for the six months ended June 30, 2015 compared to \$102.3 million for the six months ended June 30, 2014, representing a decrease of \$(7.1) million, or 6.9%. The decrease was the result of a decrease in the U.S. region (\$8.9 million), offset by an increase in the International region (\$1.8 million).

U.S. revenues were \$57.7 million for the six months ended June 30, 2015 compared to \$66.6 million for the six months ended June 30, 2014, representing a decrease of \$8.9 million, or 13.3%. The decrease was the result of lower sales direct to hospitals (\$8.2 million) and a decrease in stocking revenue (\$0.7 million).

International revenues were \$37.6 million for the six months ended June 30, 2015 compared to \$35.8 million for the six months ended June 30, 2014, representing an increase of \$1.8 million, or 5.0%. The increase was the result of the growth in implants and instruments sales (\$8.5 million), offset by an unfavorable exchange rate effect (\$6.7 million).

Cost of revenues. Cost of revenues was \$34.1 million for the six months ended June 30, 2015 compared to \$32.0 million for the six months ended June 30, 2014, representing an increase of \$2.0 million, or 6.4%. The increase was the result of one-time charges for the impairment of certain product related intangible assets and the disposal of manufacturing equipment (\$1.9 million), an increase in product costs due to mix (\$1.2 million) and an increase in royalty expenses due to volume and product mix (\$0.3 million), offset by reduced depreciation expense (\$0.8 million) and a decrease in inventory reserves and other adjustments (\$0.6 million).

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$0.7 million for the six months ended June 30, 2015 compared to \$0.9 million for the six months ended June 30, 2014. This expense represents amortization in the period for intangible assets associated with product related assets obtained in acquisitions.

Gross profit. Gross profit was \$60.5 million for the six months ended June 30, 2015 compared to \$69.4 million for the six months ended June 30, 2014, representing a decrease of (\$8.9 million), or (12.9)%. The decrease was due to an increase in cost of revenues (\$1.9 million) combined with the decline in sales volume (\$7.0 million).

Gross margin. Gross margin was 63.5% for the six months ended June 30, 2015 compared to 67.8% for the six months ended June 30, 2014. The decrease of 4.4 percentage points was due to increased cost of revenues resulting from one-time charges (2.0 percentage points), increased royalty costs due to a change in product mix (0.5 percentage points) and unfavorable variation in regional mix, currency and product mix (2.8 percentage points), offset by decrease in depreciation expense (0.4 percentage points) and decrease in inventory reserves and other adjustments (0.5 percentage points).

Gross margin for the U.S. region was 65.1% for the six months ended June 30, 2015 compared to 71.9% for the six months ended June 30, 2014. The decrease of (6.8) percentage points was due to increased cost of revenues resulting from one-time charges (3.3 percentage points), unfavorable variation in pricing and product mix (2.8 percentage points), increased royalty costs due to a change in product mix (0.9 percentage points), offset by a decrease in inventory reserves and adjustments (0.2 percentage points).

Gross margin for the International region was 61.0% for the six months ended June 30, 2015 compared to 60.3% for the six months ended June 30, 2014. The increase of 0.6 percentage points was due to reduced depreciation expense (0.8 percentage points), a reduction in amortization of acquired intangibles (0.6 percentage points) and a decrease in inventory reserves and adjustments (0.2 percentage points), offset by unfavorable variation in pricing and product mix (0.6 percentage points) and increased royalty costs due to a change in product mix (0.2 percentage points).

Research and development expense. Research and development expense was \$7.8 million for the six months ended June 30, 2015 compared to \$8.7 million for the six months ended June 30, 2014, representing a decrease of \$(1.0)

million, or 10.9%. The decrease was primarily related to the variations in the timing of the cycle for development and testing.

Sales and marketing expense. Sales and marketing expense was \$34.8 million for the six months ended June 30, 2015 compared to \$37.9 million for the six months ended June 30, 2014, representing a decrease of \$(3.1) million, or 8.1%. The

decrease was due to decrease in selling and marketing activities due to the timing of activity (\$0.7 million), and a decrease in commission expense due to reduction in U.S. regional revenue (\$2.4 million).

General and administrative expense. General and administrative expense was \$18.4 million for the six months ended June 30, 2015 compared to \$23.5 million for the six months ended June 30, 2014, representing a decrease of \$(5.1) million, or 21.7%. The decrease was primarily due to the legal expenses associated with the Orthotec litigation.

Amortization of acquired intangible assets. Amortization of acquired intangible assets was \$1.3 million for the six months ended June 30, 2015 compared to \$1.5 million for the six months ended June 30, 2014. This expense represents amortization in the period for intangible assets associated with general business assets obtained in acquisitions.

Restructuring expense. Restructuring expense was a credit of \$0.2 million for the six months ended June 30, 2015 compared to an expense of \$0.7 million for the six months ended June 30, 2014. On September 16, 2013, we announced that Scient'x had begun a process to significantly restructure its business operations in France in an effort to improve operating efficiencies and rationalize its cost structure. As of June 30, 2015 substantially all the activities associated with the restructuring are completed and substantially all of the costs associated with the restructuring have been paid.

Interest expense, net. Interest expense was 6.4 million for the six months ended June 30, 2015 and \$5.4 million for the six months ended June 30, 2014 representing an increase of \$1.0 million, or 17.7%. The increase is due to interest expense and amortization of debt discount related to the Deerfield facility (\$0.4 million), imputed interest on the Orthotec settlement (\$0.4 million) and interest on higher levels of borrowings under the MidCap facility and other liabilities (\$0.2 million).

Other income (expense), net. Other income (expense), net was income of \$0.7 million for the six months ended June 30, 2015 compared to expense of \$0.3 million for the six months ended June 30, 2014. The income for the six months ended June 30, 2015 was due to the change in fair value of common stock warrant liability (\$2.5 million), partially offset by unfavorable foreign currency exchange results due to having non-functional currency denominated assets and liabilities on subsidiaries books (\$1.5 million).

Income tax provision. Income tax provision was \$1.2 million for the six months ended June 30, 2015 compared to \$1.0 million for the six months ended June 30, 2014. The income tax provision in 2015 and 2014 consists primarily of state and foreign income taxes and the tax effect of changes in deferred tax liabilities associated with tax deductible goodwill.

#### Non-GAAP Financial Measures

We utilize certain financial measures that are not calculated based on U.S. 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 unaudited and 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, other income (expense) and other non-recurring income or expense items, such as litigation expenses and trial costs, in-process research and development expense, acquisition related transaction expenses and restructuring expenses. We believe that the most directly comparable GAAP financial measure to adjusted EBITDA is net income (loss). Adjusted EBITDA has limitations. Therefore, adjusted EBITDA 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.





The following is a reconciliation of adjusted EBITDA to the most comparable GAAP measure, net loss, for the three and six months ended June 30, 2015 and 2014 (in thousands):

|  | Three Months Ended |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,<br>2015   | 2014       | June 30,<br>2015 | 2014       |
| Net loss                                   | \$(3,947 )         | \$(2,895 ) | \$(8,508 )       | \$(9,568 ) |
| Stock-based compensation                   | 1,265              | 1,195      | 2,518            | 2,139      |
| Depreciation                               | 2,836              | 3,102      | 5,627            | 6,352      |
| Amortization of intangible assets          | 1,559              | 398        | 1,884            | 795        |
| Amortization of acquired intangible assets | 1,030              | 1,204      | 2,076            | 2,408      |
| Interest expense, net                      | 3,028              | 3,744      | 6,392            | 5,429      |
| Income tax provision                       | 253                | 307        | 1,155            | 976        |
| Other (income) expense, net                | (2,161 )           | 685        | (724 )           | 302        |
| Restructuring and other expense            | (112 )             | (90 )      | (172 )           | 722        |
| Litigation expenses and trial costs        | —                  | —          | —                | 4,779      |
| Adjusted EBITDA                            | \$3,751            | \$7,650    | \$10,248         | \$14,334   |

#### Liquidity and Capital Resources

At June 30, 2015, our principal sources of liquidity consisted of cash of \$8.9 million and accounts receivable, net of \$38.9 million. We expect to fund the operating expenses from available cash, cash flow from operating activity and unused availability of \$10.8 million under the revolving credit and term loan with MidCap Financial, LLC, or MidCap.

As disclosed in Note 1 and Note 5 to the condensed consolidated financial statements in Item 1, we were not in compliance with the fixed coverage ratio covenant as of June 30, 2015 related to the Amended Credit Facility with MidCap for June of 2015. We obtained a waiver in February 2016 from MidCap to cure the noncompliance for June of 2015. Our default under the Amended Credit Facility with MidCap also constitutes an event of default under our Facility Agreement with Deerfield (described in Note 1 and Note 5), and such default has been waived in February 2016 for this period. There is no assurance that we will be in compliance with the financial covenants in the future. If we have future defaults and we do not obtain waivers from MidCap and Deerfield they would each have the right to call their respective debts due immediately, which would significantly impact our ability to continue as a going concern. We intend to pursue additional opportunities to raise additional capital through public or private equity offerings, debt financings, receivables financings or collaborations or partnerships with other companies to further support our planned operations. However, there is no assurance that we will be able to do so.

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 surgical instruments, repayments of borrowings under our amended and restated credit facility with MidCap, or the Credit Facility and payments due under the facility and Orthotec settlement agreements. We expect that our 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 anticipate that if we require additional liquidity for operations, it will be funded through borrowings under our Amended Credit Facility, the incurrence of other indebtedness, additional equity financings or a combination of these potential sources of liquidity.

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 the end of 2015. If we are not 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. Our revenue projections may be

negatively impacted as a result of a decline in sales of our products, including declines due to changes in our customers' ability to obtain third-party coverage and reimbursement for procedures that use our products, increased pricing pressures resulting from intensifying competition, and cost increases and slower product development cycles resulting from a changing regulatory environment.

On July 6, 2015, the Company announced a restructuring of its manufacturing operations in California in an effort to improve its cost structure. The restructuring includes a reduction in workforce and closing the California manufacturing facility. The restructuring will take place over the next year and the Company estimates that it will incur termination benefits, accelerated depreciation and facility closing and other restructuring costs of up to \$4 million.

A substantial portion of our available cash funds is held in business accounts with reputable financial institutions. At times, however, our deposits, may exceed federally insured limits and thus we may face losses in the event of insolvency of any of the financial institutions where our funds are deposited. We did not hold any marketable securities as of June 30, 2015.

#### Amended Credit Facility and Other Debt

On June 7, 2012, we entered into a credit facility, or the Credit Facility, with MidCap, which was amended and restated on August 30, 2013 to, among other things, increase the borrowing limit from \$50 million to \$73 million. The Credit Facility is due in August 2016 and consists of a revolving line of credit with a maximum borrowing base of \$40 million and a \$33 million term loan. The \$5 million delayed draw was borrowed on April 1, 2014. In addition to monthly payments of interest, monthly repayments of \$0.3 million of the principal for the term loan were made beginning in October 2013, increasing to \$0.5 million beginning in October 2014, and are due through maturity, with the remaining principal due upon maturity. The revolving line bears an interest rate equal to the London Interbank Market Rate, or LIBOR, plus 6.0% and the term loan bears an interest rate of LIBOR plus 8.0%, subject to a 9.5% floor. As of June 30, 2015, \$29.2 million is outstanding under the revolving line of credit.

On March 17, 2014, we entered into a First Amendment to Amended and Restated Credit, Security and Guaranty Agreement, or the First Amendment, with MidCap as Administrative Agent and lender and other lenders from time to time a party thereto, or together with MidCap, the Lenders. The First Amendment permits, among other things, our execution of, and borrowing of loans, under the Facility Agreement and Alphatec Spine's granting of liens as security therefor, and the payment of our Orthotec litigation settlement obligations and completion of certain conditions. The First Amendment also added a total leverage ratio financial covenant to the Credit Facility.

On July 10, 2015, the Company entered into a Second Amendment to the Amended Credit Facility with MidCap (the "Second Amendment") to increase the term loan commitment from \$33 million to \$38 million. The additional \$5 million term loan is the third term loan tranche (the "Third Term Loan Tranche"). Until January 1, 2016, only interest payments are due for the Third Term Loan Tranche. Thereafter, the Company will pay an amount equal to \$0.5 million on the first day of each calendar month as an amortization payment in respect of all tranches of the term loan. The Company agreed to pay MidCap, a commitment fee equal to 1.0% of the principal amount of the funds disbursed under the Third Term Loan Tranche.

The Credit Facility includes traditional lending and reporting covenants which among other things requires us to maintain a fixed charge coverage ratio and a senior leverage ratio. The Credit Facility also includes several potential events of default, such as payment default and insolvency conditions, which could cause interest to be charged at a rate which is up to five percentage points above the rate effective immediately before the event of default or result in MidCap's right to declare all outstanding obligation immediately due and payable. We were in compliance with all of the covenants of the Credit Facility as of June 30, 2015, except as disclosed in Note 5 of the condensed consolidated financial statements under Item 1.

On March 17, 2014, we entered into a facility agreement, or the Facility Agreement, with Deerfield Private Design Fund II, L.P., Deerfield Private Design International II, L.P., Deerfield Special Situations Fund, L.P., and Deerfield Special Situations International Master Fund, L.P., collectively, "Deerfield", pursuant to which Deerfield agreed to loan us up to \$50 million, subject to the terms and conditions set forth in the Facility Agreement. We agreed to pay Deerfield, upon each disbursement of funds under the Facility Agreement, a transaction fee equal to 2.5% of the principal amount of the funds disbursed in addition to the issuance of additional warrants to purchase up to 10,000,000 shares of the Company's common stock to Deerfield. On March 20, 2014, we drew \$20 million under the Facility Agreement and received net proceeds of \$19.5 million to fund the Orthotec settlement payment obligations through 2014 and on November 21, 2014, we drew an additional \$6 million under the Facility Agreement and received net proceeds of \$5.9 million to fund the Orthotec settlement payment obligations through a portion of 2016. The unused

proceeds from the Facility Agreement are classified as restricted cash and may not be used for other purposes. As of January 30, 2015, we can no longer draw down additional funds under the Facility Agreement. The amounts borrowed under the Facility Agreement are due in three equal annual payments beginning March 20, 2017.

On July 10, 2015, the Company entered into a First Amendment to the Facility Agreement (the "Facility Agreement First Amendment"), with Deerfield. The Facility Agreement First Amendment permits, among other things, the Company's execution of, and borrowing of loans, under the Second Amendment.

We have various capital lease arrangements. The leases bear interest at rates ranging from 6.6% to 9.6% per annum, are generally due in monthly principal and interest installments, are collateralized by the related equipment, and have various maturity dates through June 2017. As of June 30, 2015, the balance of these capital leases, net of interest totaled \$1.4 million.

### Operating Activities

We generated net cash of \$3.4 million from operating activities for the six months ended June 30, 2015. During this period, net cash provided by operating activities primarily consisted of a net loss of \$8.5 million and working capital and other assets of \$5.5 million, which were offset by \$17.4 million of non-cash costs including amortization, depreciation, deferred income taxes, stock-based compensation, provision for doubtful accounts, provision for excess and obsolete inventory, and interest expense related to amortization of debt discount and issue costs. Working capital and other assets of \$5.5 million consisted of increases in inventories of \$1.3 million, and decreases accrued expenses and other liabilities of \$9.8 million, partially offset by decreases in restricted cash of \$2.2 million, accounts receivable of \$0.9 million and prepaid expenses and other current assets of \$1.1 million and increases in accounts payable of \$1.7 million.

### Investing Activities

We used cash of \$7.3 million, net of accounts payable, in investing activities for the six months ended June 30, 2015, including \$7.3 million for the purchase of surgical instruments.

### Financing Activities

Financing activities used net cash of \$7.4 million for the six months ended June 30, 2015. On the MidCap term loan we borrowed \$73.5 million and we made principal payments totaling \$76.1 million. We made principal payments on notes payable and capital leases totaling \$4.7 million in the six months ended June 30, 2015.

### Contractual obligations and commercial commitments

Total contractual obligations and commercial commitments as of June 30, 2015 are summarized in the following table (in thousands):

|  | Payment Due by Year |                    |          |          |          |          |            |
|--|---------------------|--------------------|----------|----------|----------|----------|------------|
|  | Total               | 2015<br>(6 months) | 2016     | 2017     | 2018     | 2019     | Thereafter |
| Amended Credit Facility with MidCap <sup>(2)</sup> | \$54,962            | \$2,804            | \$52,158 | \$—      | \$—      | \$—      | \$—        |
| Credit Facility with Deerfield <sup>(2)</sup>      | 26,000              | —                  | —        | 8,667    | 8,667    | 8,666    | —          |
| Interest expense <sup>(2)</sup>                    | 10,820              | 3,182              | 4,794    | 1,706    | 948      | 190      | —          |
| Notes payable for software licenses                | 338                 | 196                | 142      | —        | —        | —        | —          |
| Note payable for insurance premiums                | 134                 | 134                | —        | —        | —        | —        | —          |
| Capital lease obligations                          | 1,537               | 403                | 787      | 347      | —        | —        | —          |
| Operating lease obligations                        | 5,210               | 1,758              | 2,276    | 796      | 252      | 128      | —          |
| Litigation settlement obligations                  | 38,033              | 3,200              | 4,400    | 4,400    | 4,400    | 4,400    | 17,233     |
| Guaranteed minimum royalty obligations             | 11,310              | 1,542              | 2,646    | 2,218    | 2,218    | 1,468    | 1,218      |
| New product development milestones <sup>(1)</sup>  | 400                 | —                  | —        | 200      | —        | 200      | —          |
| Total  | \$148,744           | \$13,219           | \$67,203 | \$18,334 | \$16,485 | \$15,052 | \$18,451   |

This commitment represents payments in cash, and is subject to attaining certain sales milestones, development (1) milestones such as U.S. Food and Drug Administration approval, product design and functionality testing requirements, which we believe are reasonably likely to be achieved during the period from 2015 through 2019.

(2) The amounts above are presented based on the contractual payment schedules in each of the respective agreements. However, the debt balance under the Amended Credit Facility and Facility Agreement was callable as of June 30, 2015 due to the event of default (See Note 1 and Note 5) and therefore, is presented as a current liability on the

condensed consolidated balance sheet as of June 30, 2015.

### Stock-based Compensation

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

|  | Three Months Ended<br>June 30, |           | Six Months Ended June<br>30, 2015 |           |
|--|--------------------------------|-----------|-----------------------------------|-----------|
|  | 2015                           | 2014      | 2015                              | 2014      |
| Cost of revenues                               | \$31                           | \$80      | \$53                              | \$146     |
| Research and development                       | 469                            | 690       | 1,027                             | 1,110     |
| Sales and marketing                            | 128                            | 86        | 253                               | 211       |
| General and administrative                     | 637                            | 339       | 1,185                             | 672       |
| Total  | \$1,265                        | \$1,195   | \$2,518                           | \$2,139   |
| Effect on basic and diluted net loss per share | \$(0.01 )                      | \$(0.01 ) | \$(0.03 )                         | \$(0.02 ) |

### Recent Accounting Pronouncements

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also permitted early adoption of the standard, but not before the original effective date of December 15, 2016. We are currently evaluating the impact, if any, that the adoption of this standard will have on our financial statements.

In August 2014, the FASB issued guidance related to disclosures of uncertainties about an entity's ability to continue as a going concern. The guidance requires management to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. Management will be required to make this evaluation for both annual and interim reporting periods and will have to make certain disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the entity's ability to continue as a going concern. Substantial doubt exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The guidance is effective for annual periods ending after December 15, 2016 and for interim reporting periods within annual periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of this guidance and expect to adopt the standard for the annual reporting period ended December 31, 2016.

In April 2015, the FASB issued guidance that amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. The guidance will not change the amortization of debt issuance costs, which will continue to follow the existing accounting guidance. This guidance is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. We are currently evaluating the impact of adopting this new accounting standard on our financial statements.

### Forward Looking Statements

This Quarterly Report on Form 10-Q incorporates 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 Securities Exchange Act of 1934, or the Exchange Act, including statements regarding:

- our estimates regarding anticipated operating losses, future revenue, expenses, capital requirements, uses and sources of cash and liquidity, including our anticipated revenue growth and cost savings;
- our ability to market, improve, grow, commercialize and achieve market acceptance of any of our products or any product candidates that we are developing or may develop in the future
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our beliefs about the enhance features, strengths and benefits of our products and product platform and our intention to provide unmatched service to the surgeon community;  
the effect of our strategy to streamline our organization and lower our costs;

- our expectations about the timing, costs and benefits of the restructuring of our manufacturing operations;
- our beliefs about the attractiveness of the features and benefits of our products;
- our ability to successfully integrate, and realize benefits from acquisitions;
- our ability to successfully achieve and maintain regulatory clearance or approval for our products in applicable jurisdictions and in a timely manner;
- 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 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 and pricing trends;
- our ability to achieve profitability, and the potential need to raise additional funding;
- 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;
- our ability to increase the use and promotion of our products by training and educating surgeons;
- 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 regain and maintain compliance with the quality requirements of the FDA and similar regulatory authorities outside of the U.S., and to address the deficiencies cited in the warning letter recently received from the FDA (described below);
- the effects of the escalating cost of medical products and services and the effects of market demand, government regulation, third-party reimbursement policies and societal pressures on the worldwide healthcare industry and our business;
- our ability to meet the financial covenants under our credit facilities, to obtain waivers from our lenders with respect to any noncompliance with our financial covenants, and to refinance our existing debt prior to the maturity of our credit facilities with our current or new lenders;
- our ability to ensure that we have effective disclosure controls and procedures and to remedy our material weakness in our internal control over financial reporting;
- our ability to meet or exceed the industry standard in clinical and legal compliance and corporate governance programs;
- potential liability resulting from litigation;
- potential liability resulting from a governmental review of our business practices;
- our beliefs about the usefulness of the non-GAAP financial measures included in this Quarterly Report on Form 10-Q;
- our ability to meet and potential liability from not meeting the payment obligations under either the Cross Medical or Orthotec settlements;
- our beliefs with respect to our critical accounting policies and the reasonableness of our estimates and assumptions;
- and
- other factors discussed elsewhere in this Quarterly Report on Form 10-Q or any document incorporated by reference herein or therein.

Any or all of our forward-looking statements in this Quarterly Report on Form 10-Q may turn out to be wrong. They can be affected by inaccurate assumptions and/or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Quarterly Report on Form 10-Q will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from expected results.



We also provide a cautionary discussion of risks and uncertainties under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 and any updates to those risk factors filed from time to time in our subsequent periodic and current reports filed with the SEC. 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 “believe,” “anticipate,” “plan,” “expect,” “estimate,” “may,” “will,” “should,” “could,” “seek,” “intend,” “continue,” “project,” and similar expressions are intended to identify forward-looking statements. There are a number of factors and uncertainties that could cause actual events or results to differ materially from those indicated by such forward-looking statements, many of which are beyond our control, including the factors set forth under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 and any updates to those risk factors filed from time to time in our subsequent periodic and current reports filed with the SEC. 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 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our borrowings under our Credit Facility expose us to market risk related to changes in interest rates. As of June 30, 2015, our outstanding floating rate indebtedness totaled \$55.0 million. The primary base interest rate is the LIBOR 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 \$0.6 million. Other outstanding debt consists of fixed rate instruments, including debt outstanding under the Facility Agreement, notes payable and capital leases.

Foreign Currency Risk

Our foreign currency exposure continues to grow as we seek to expand internationally. Our exposure to foreign currency transaction gains and losses is primarily 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 had unfavorable foreign currency exchange results realized in 2015 due to having U.S. dollar denominated assets and liabilities on foreign subsidiaries books. 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 had a material impact on our results of operations for the six months ended June 30, 2015.

Equity Price Risk

In connection with the Facility Agreement with Deerfield, we have issued warrants to purchase 11,450,000 shares of our common stock. We recorded the warrant liability at fair value and adjust the carrying value of these common stock warrants to their estimated fair value at each reporting date with the increases or decreases in the fair value of such warrants at each reporting date recorded as other income (expense) in our consolidated statement of operations. A 10 percent increase in our stock price from its June 30, 2015 closing price of \$1.38 per share would increase the fair value of the warrant liability by approximately \$1.2 million with a corresponding charge to our income statement.

Item 4. 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 by us in our reports that we file or submit pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's, or SEC'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 our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the 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, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as

appropriate to allow timely decisions regarding required

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disclosure. This conclusion was a result of a material weakness as described below in the Company's internal control over financial reporting that existed at June 30, 2015 and had not been remediated by the end of the period covered by this Quarterly Report on Form 10-Q.

#### Material Weakness in Internal Control Over Financial Reporting

The Company's management, including our Chief Executive Officer and Chief Financial Officer, identified a material weakness in the Company's internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Amended Credit Facility with MidCap includes certain financial debt covenants. Subsequent to filing the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, filed on August 4, 2015, the Company discovered that the Company was not in compliance with a financial debt covenant related to the Amended Credit Facility with MidCap as of June 2015. The Company failed to design effective controls to assess whether it is in compliance with the debt covenants, which resulted in the restatement of the Company's condensed consolidated balance sheet as of June 30, 2015. Based on this assessment and the material weakness described above, management concluded that the Company's internal control over financial reporting was not effective as of June 30, 2015.

#### Remediation Measures

To address the material weakness described above, the Company has designed and implemented new and enhanced controls to ensure that the calculation of the fixed charge coverage ratio reflects an accurate interpretation of the definitions in the underlying debt agreement and that the appropriate level of review is performed.

The Company believes the actions described above will be sufficient to remediate the identified material weakness and strengthen our internal control over financial reporting. However, the new and enhanced controls have not operated for a sufficient amount of time to conclude that the material weakness has been remediated. The Company will continue to monitor the effectiveness of these controls and will make any further changes management determines appropriate.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than the changes discussed above under "Remediation Measures."

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

#### Litigation

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 our common stock between December 19, 2009 and August 5, 2010 against us and certain of our directors and officers alleging violations of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder. On February 17, 2011, an amended complaint was filed against us and certain of our directors and officers adding alleged violations of the Securities Act of 1933, as amended (the "Securities Act"). HealthpointCapital, Jefferies & Company, Inc., Canaccord Adams, Inc., Cowen and Company, Inc., and Lazard Capital Markets LLC are also defendants in this action. The complaint alleged that the defendants made false or misleading statements and failed to disclose material facts about our business, financial condition, operations and prospects, particularly relating to the Scient'x transaction and our financial guidance following the closing of the acquisition. The complaint sought unspecified monetary damages, attorneys' fees, and other unspecified relief. We filed a motion to dismiss the amended complaint on April 18, 2011. The district court granted the motion to dismiss with leave to amend on March 22, 2012. On April 19, 2012, the lead plaintiff filed a Second Amended Complaint alleging violations of Sections 10(b) and 20(a) of the Exchange Act and violations of Section 11, 12(a)(2), and 15 of the Securities Act against the same named defendants. On May 3, 2012, we filed a motion to dismiss the Second Amended Complaint. The district court granted that motion without leave to amend and entered final judgment in our favor on March 28, 2013. On April 17, 2013, the lead plaintiff filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit. The appellate court heard oral argument on May 5, 2015. On June 5, 2015, the Ninth Circuit affirmed the district court's decision in all respects and ordered dismissal of the case. The mandate issued on June 30, 2015.

In addition to the matter described above, we are and may become involved in various other legal proceedings arising from our business activities. While we believe the ultimate disposition of the above matter that has been settled will not have a material adverse impact on our 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 our future consolidated results of operations, cash flows or financial position in a particular period. We assess contingencies to determine the degree of probability and range of possible loss for potential accrual or disclosure in our consolidated financial statements. An estimated loss contingency is accrued in our consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. When evaluating contingencies, we may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed in litigation against us may be unsupported, exaggerated or unrelated to reasonably possible outcomes, and as such are not meaningful indicators of our potential liability.

#### Item 1A. Risk Factors

The following are material changes to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on February 26, 2015.

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

We must comply with certain affirmative and negative covenants, including financial covenants, in our Amended Credit Facility with MidCap and affirmative and negative covenants in our Facility Agreement with Deerfield. We determined that we failed to comply with the fixed charge coverage ratio covenant under our Amended Credit Facility with MidCap in June of 2015, but MidCap and Deerfield have provided waivers of our failure to comply with the covenant during such period. Even though we obtained waivers from MidCap and Deerfield in January and February of 2016 for the periods above, there can be no assurance that at all times in the future we will satisfy all such financial or other covenants of the MidCap Amended Credit Facility or the Deerfield Facility Agreement, or obtain any



required waiver or amendment, in which event of default the lenders party to the MidCap Amended Credit Facility could refuse to make further extensions of credit to us and MidCap and/or Deerfield could require all amounts borrowed under the MidCap Amended Credit Facility and/or the Facility Agreement, respectively, together with accrued interest and other fees, to be immediately due and payable. In addition to allowing the

lenders to accelerate the loan, several events of default under the MidCap Amended Credit Facility, such as our failure to make required payments of principal and interest and the occurrence of certain bankruptcy or insolvency events, could require us to pay interest at a rate which is up to five percentage points higher than the interest rate effective immediately before the event of default.

An event of default under the MidCap Amended Credit Facility or the Deerfield Facility Agreement could have a material adverse effect on us. Upon an event of default, if the lenders under the MidCap Amended Credit Facility accelerate the repayment of all amounts borrowed, together with accrued interest and other fees, or if the lenders elect to charge us additional interest, we cannot assure you that we will have sufficient cash available to repay the amounts due, and we may be forced to seek to amend the terms of the MidCap Amended Credit Facility or the Deerfield Facility Agreement or obtain alternative financing, which may not be available to us on acceptable terms, if at all. In addition, if we fail to pay amounts when due under the MidCap Amended Credit Facility or the Deerfield Facility Agreement or upon the occurrence of another event of default, the lenders under the MidCap Amended Credit Facility or the Deerfield Facility Agreement could proceed against the collateral granted to them pursuant to the MidCap Amended Credit Facility and the Deerfield Facility Agreement. We have granted to the lenders under the MidCap Amended Credit Facility a first priority security interest in substantially all of our assets, including all accounts receivable and all securities evidencing our interests in our subsidiaries, as collateral under the MidCap Amended Credit Facility. If the lenders proceed against the collateral, such assets would no longer be available for use in our business, which would have a significant adverse effect our business, financial condition and results of operations. For the quarter ended June 30, 2015, we determined that we had a material weakness in our internal control over financial reporting. As a result, current and potential stockholders could lose confidence in our financial reporting which would harm our business and the trading of our stock.

For the quarter ended June 30, 2015, we determined that we had a material weakness in our internal control over financial reporting. Our efforts to comply with Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal control over financial reporting and our independent auditor's audit of that assessment requires the commitment of significant financial and managerial resources.

The Amended Credit Facility with MidCap includes certain financial debt covenants. Subsequent to filing the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, on August 4, 2015, we discovered that we were not in compliance with the fixed charge coverage ratio covenant under the Amended Credit Facility with MidCap for June of 2015. We obtained a waiver from MidCap to cure the non-compliance for this period. As a result of our failure to comply with the fixed coverage ratio covenant under the Amended Credit Facility, we were also in default under the Facility Agreement with Deerfield, for which we also obtained a waiver for the previously mentioned period. The aforementioned waivers from MidCap and Deerfield were received in January and February of 2016. As a result, we have determined to restate the condensed consolidated balance sheet as of June 30, 2015 to classify the amounts due under the MidCap Amended Credit Facility and the Deerfield Facility Agreement as current portion of long-term debt, rather than long-term debt. We determined that we failed to design effective controls to assess whether we are in compliance with the debt covenants. This deficiency resulted in a material weakness, which is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim consolidated financial statements will not be prevented or detected on a timely basis. To address the material weakness described above, we have designed and implemented new and enhanced controls to ensure that the calculation of the fixed charge coverage ratio reflects an accurate interpretation of the definitions in the underlying debt agreements and that the appropriate level of review is performed.

If we determine in future fiscal periods that we have other material weaknesses in our internal control over financial reporting, the reliability of our financial reports may be impacted or we could be required to restate our financial statements. In addition, our failure to successfully remediate a material weakness in the future could result in adverse consequences to us, including, but not limited to, a loss of investor confidence in the reliability of our financial statements, which could cause the market price of our stock to decline.

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 quality systems regulations, or QSRs, which cover, among other things, 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 halt 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.

On July 17, 2015, Alphatec Spine, Inc., our wholly owned subsidiary, received a Warning Letter from the FDA in connection with the FDA's inspection of our manufacturing facilities located in Carlsbad, California that occurred from February 4, 2015 until March 13, 2015, or the Inspection. In the Warning Letter, the FDA cited eight deficiencies in our responses to the FDA Form 483, Inspectional Observations, which was issued to us at the end of the Inspection. The deficiencies relate to our internal procedures for quality planning, design control, document control and corrective and preventive actions. The Warning Letter does not restrict production or shipment of our products from our facilities, or the sale or marketing of our products. We are currently addressing the deficiencies cited by the FDA in the Warning Letter and intend to work closely with the FDA to resolve any outstanding issues. Until the procedures noted in the Warning Letter are corrected, we may be subject to additional regulatory action by the FDA, and any such actions could significantly disrupt our ongoing business and operations and have a material adverse impact on our financial position and operating results. There can be no assurance that the FDA will be satisfied with our response.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

##### Unregistered Sales of Equity Securities

None

##### Issuer Purchases of Equity Securities

Under the terms of our Amended and Restated 2005 Employee, Director and Consultant Stock Plan, or the 2005 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 2005 Plan and are available for future awards under the terms of the 2005 Plan.

| Period                               | Total Number of Shares Purchased | 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 the Plans or Programs |
|--------------------------------------|----------------------------------|------------------------------|--|--|
| April 1, 2015 through April 30, 2015 | —                                | \$—                          | —  | —  |
| May 1, 2015 through May 31, 2015     | —                                | \$—                          | —  | —  |
| June 1, 2015 through June 30, 2015   | —                                | \$—                          | —  | —  |

(1) Not included in the table above are 2,293 shares of common stock forfeited and retired 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 of the shares to pay such taxes.

Item 6. Exhibits  
Exhibit Number Exhibit Description

31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from the Alphatec Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as (Unaudited) of June 30, 2015 and December 31, 2014, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three and six months ended June 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive Loss (Unaudited) for the three and six months ended June 30, 2015 and 2014, (iv) Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2015 and 2014, and (v) Notes to Condensed Consolidated Financial Statements (Unaudited).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALPHATEC HOLDINGS, INC.

By: /s/ James M. Corbett  
James M. Corbett  
President and Chief Executive Officer  
(principal executive officer)

By: /s/ Michael O'Neill  
Michael O'Neill  
Chief Financial Officer, Vice President and Treasurer  
(principal financial officer and principal accounting officer)

Date: February 9, 2016

Exhibit Index

| Exhibit<br>Number | Exhibit Description |
|-------------------|---------------------|
|-------------------|---------------------|

|      |   |
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|------|---|

|      |   |
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