

Alphatec Holdings, Inc.  
Form 10-K  
March 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

or

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

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

Commission file number: 000-52024

ALPHATEC HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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(760) 431-9286

(Registrant’s Telephone Number, Including Area Code)

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

<p>Title of Each Class Common Stock, par value \$0.0001 per share</p>	<p>Name of Each Exchange on Which Registered The NASDAQ Global Select Market</p>
<p>Securities registered pursuant to Section 12(g) of the Exchange Act: None</p>	

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2017), was approximately \$24.2 million.

The number of outstanding shares of the registrant's common stock, par value \$0.0001 per share, as of March 9, 2018 was 25,471,200 .

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant's Proxy Statement for the 2018 Annual Meeting of Stockholder.

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ALPHATEC HOLDINGS, INC.

FORM 10-K—ANNUAL REPORT

For the Fiscal Year Ended December 31, 2017

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In this Annual Report on Form 10-K, the terms “we,” “us,” “our,” “Alphatec Holdings” and “Alphatec” mean Alphatec Holdings, Inc. and our subsidiaries and their subsidiaries. “Alphatec Spine” refers to our wholly-owned operating subsidiary Alphatec Spine, Inc. “Scient’x” refers to our operating affiliate, Scient’x S.A.S., which is wholly-owned by several of our subsidiaries, and Scient’x’s subsidiaries.



## PART I

### Item 1. Business

We are a medical technology company focused on the design, development, and advancement of products for better surgical treatment of spinal disorders. Our mission is to become the most respected, fastest growing U.S. spine company, by providing innovative, spine surgery solutions through our relentless pursuit of superior outcomes. We have a broad product portfolio capable of addressing the majority of U.S. market for fusion-based spinal disorder solutions. We intend to drive growth by exploiting our unmatched collective spine experience and investing in the research and development to continually differentiate our solutions and improve spine surgery. We believe our future success will be fueled by introducing market-shifting innovation to the spine market, and we believe that we are exceptionally well-positioned to capitalize on current spine market dynamics.

Between late 2017 and today, we have assembled a spine-experienced team that we believe can execute our vision for long-term growth, including the recent appointments of Patrick Miles as our Chairman and Chief Executive Officer; Dr. Luiz Pimenta as our Chief Medical Officer; Lance DeNardin as Area Vice President, West; Michael Dendinger as Vice President of Operations; Scott Lish as Vice President of Development; Dr. Richard O'Brien as Chief Medical Officer, SafeOp Surgical; Robert Snow as Chief Marketing Officer, SafeOp Surgical; Chris Brown as Vice President, Sales, SafeOp Surgical. Collectively, the Alphatec executive leadership team has over 150 years of combined spine-experience.

We have also reconstituted our Board of Directors since late 2016, adding significant spine industry and capital markets expertise.

### Recent Developments

On March 8, 2018, we announced the acquisition of SafeOp Surgical, Inc., or SafeOp. SafeOp was a privately-held provider of neuromonitoring technology designed to enable effective intra-operative nerve health assessment. With the full integration of SafeOp's technology, we expect to be able to introduce an unprecedented level of neuromonitoring and intraoperative nerve safety to the spine market in early 2019. SafeOp's patented technology has been designed to enable both nerve avoidance and nerve health assessment to prevent the risk of nerve injury that is widely associated with direct lateral spine fusion surgery.

On March 8, 2018, we completed a \$39.7 million first close of a \$45.2 million private placement of our securities to certain institutional and accredited investors, including certain directors and executive officers of the Company. The second close of the private placement is expected to occur within five business days. The private placement was led by L-5 Healthcare Partners, an institutional investor, and provides for the sale by the Company of approximately 14.3 shares of newly created Series B Convertible Preferred Stock, which are automatically convertible into approximately 14.3 million shares of common stock (representing a purchase price of \$3.15 per common share), upon approval by Alphatec's stockholders, as required in accordance with the NASDAQ Global Select Market rules. Purchasers also received warrants to purchase up to approximately 12.2 million shares of common stock at an exercise price of \$3.50 per share. In addition, the Company entered into an agreement with Armistice Capital, an existing investor, to exercise 2.4 million warrants to purchase common shares for gross proceeds of \$4.8 million in exchange for warrants to purchase up to 1,800,000 shares of common stock at an exercise price of \$3.50 per share. The new

warrants will be exercisable following approval by Alphatec stockholders, and will expire 5 years from the date of such stockholder approval. Certain directors and executive officers of Alphatec agreed to purchase an aggregate of \$6.4 million of shares of Series B Convertible Preferred Stock, which shares are convertible into approximately 2.1 million shares of common stock (representing a purchase price of \$3.15 per common share), and warrants to purchase up to 1.7 million shares of common stock at a price of \$3.50 per share. We paid \$15 million of the net proceeds from the private placement fund the cash purchase price for SafeOp, and will use the remaining net proceeds for working capital and general corporate purposes, including the integration of next-generation neuromonitoring solutions, advancement of our product pipeline, and investment in sales and marketing to expand our market presence.

## Strategy

Our goal is to become the most respected, fastest growing spine player by pioneering meaningful innovation. With our new spine-experienced leadership team, and the high-performance culture we are creating, we intend to advance Alphatec from an implant manufacturer to a spine solutions architect via two key principals:

1. **Proceduralization.** We are determined to design complete surgical solutions that address unmet clinical needs and improve clinical outcomes by integrating Alphatec products and technologies to treat specific pathologies.
2. **Speed to Market.** We intend to build on proven team expertise to expedite product development by enhancing Alphatec's innovative dexterity and unique market strategy and accelerating the commercial launch of our innovative product pipeline. To achieve our vision, we are committed to attracting, engaging, and retaining the best talent in the industry, and we are prioritizing the following initiatives:

#### Drive Predictable Financial Performance – Strengthen Our Distribution Channel

We market and sell our products in the U.S. through a network of independent distributors and direct sales representatives. An objective of our new leadership team is to deliver increasingly consistent, predictable growth. To accomplish this, we are partnering more closely with our distributors to create a more dedicated and loyal sales channel for the future. We are eliminating stocking distributors and transitioning preexisting distributor relationships to more dedicated, non-competitive partnerships. We are also adding new, high-quality dedicated distributors to expand future growth. We believe this will allow us to reach an untapped market of surgeons, hospitals, and national accounts across the U.S., as well as better penetrate existing accounts and territories.

We made significant progress in the transition of our distribution channel in 2017, driving the percent of sales contributed by dedicated agents and distributors from less than 10% in the fourth quarter of 2016 to over 40% in the fourth quarter of 2017. Going forward, we intend to continue to relentlessly drive toward a fully exclusive network of independent and direct sales agents. Recent consolidation in the industry is facilitating the process, as large, seasoned distributors are seeking opportunities to re-enter the spine market by partnering with spine-focused companies that have broad, growing product portfolios.

Over the course of 2017, we assembled a sales leadership team with three Area Vice Presidents charged with driving the new Alphatec vision in the field. Each of our new leaders has over 20 years of spine sales leadership, and we believe they will contribute meaningfully to the repositioning of our brand and the strengthening of our distribution channel.

We also employ a national accounts team responsible for securing access at hospitals and group purchasing organizations, or GPOs, across the U.S. We have had strong success with securing access to hospitals and GPOs, and today much of our business is achieved through these accounts. We believe that this access is a key differentiator for Alphatec. We will continue to focus our efforts and investment in developing and maintaining relationships with key GPOs and hospital networks to secure favorable contracts and develop strategies to convert or grow business within existing accounts.

#### Make Culture Our Competitive Advantage

With the vast spine expertise that our new leadership team brings, comes a unique understanding of the importance of a powerful, innovative culture. We know that culture can be a formidable competitive advantage. Accordingly, to achieve our vision of becoming the most respected, fastest growing U.S. spine player, we are assembling a motivated, spine-experienced workforce, focused on innovation, not only in our product development initiatives, but also throughout every Alphatec department and every Alphatec process. We are also building an “ownership culture” by aligning the interests of our team members with those of our shareholders. In addition to the substantial personal equity investments that our directors and officers have made, every Alphatec team member has been granted equity ownership. By transforming the culture of our organization, constructing an inspiring workspace, and fostering an environment of surgeon integration and collaboration, we believe that Alphatec is well-positioned to deliver innovation and differentiation to a market that needs it.

#### Drive New Product Innovation that Improves Clinical Outcomes

We are dedicated to the design, development, and advancement of meaningful innovation for the surgical treatment of spinal disorders. Under the leadership of our CEO and Chairman, Patrick Miles, the direction of Alphatec’s research and development programs are becoming increasingly well-defined. We intend to become a much larger spine player by improving spine patient outcomes, and we are making investments to support sustained long term growth.

In 2017, we commercially launched several new solutions, including the Battalion Lateral System and the Arsenal Screw System. We also relaunched our biologics platform to recapture incremental procedural revenue.



In early 2018, we announced our acquisition of SafeOp, which we believe will substantially differentiate our solutions. SafeOp is focused on providing cost effective neuro-monitoring, particularly for detection of peripheral nerve damage caused by nerve compression, ischemia or stretching during surgery. SafeOp currently produces the EPAD™ neuromonitoring device which entered the market in late 2016.

SafeOp's somatosensory evoked potential, or SSEP, solution is an FDA 510(k)-cleared device, the EPAD, that allows ongoing monitoring of critical nerve function. The EPAD, automates SSEP's, thereby eliminating the need for a technician or other neuromonitoring specialist. In late 2018, we expect to receive FDA approval for SafeOp's electromyography, or EMG, technology to complement the SSEP solution. Launching a differentiated solution, we are positioned to compete in the market for lateral spine surgery, which we estimate to be more than \$500 million annually. In addition to expanding our market presence in lateral spine surgery, we believe that the SafeOp solution will allow us to integrate neuromonitoring into our broader product portfolio and accelerate our transition to procedural integration of our entire portfolio.

In 2018, we expect to continue to transition from an implant manufacturer to a spine solutions architect, focusing on delivering full procedural offerings. We expect to see several pipeline investments come to fruition. We are developing line extensions for our existing product portfolio, and have initiatives underway to expand our product portfolio. We are expanding our offering to address a wide variety of spine pathologies with implants made of PEEK, Allograft, and a porous titanium material.

### Spine Anatomy

The spine is the core of the human skeleton and provides important structural support and alignment while remaining flexible to allow movement. The spine is a column of 33 bones that protects the spinal cord and provides the main support for your body. Each bony segment of the spine is referred to as a vertebra (two or more are called vertebrae). The spine has five regions containing groups of similar bones, listed from top to bottom: seven cervical vertebrae in the neck, twelve thoracic vertebrae in the mid-back (each attached to a rib), five lumbar vertebrae in the lower back, five sacral vertebrae fused together to form one bone in the hip region, and four coccygeal bones fused together that form the tailbone. At the front of each vertebra is a block of bone called the vertebral body. Vertebrae are stacked on top of each other and enable people to sit and stand upright. Vertebrae in the cervical, thoracic and lumbar regions are separated from each other and cushioned by a rubbery soft tissue called the intervertebral disc. Strong muscles and bones, flexible tendons and ligaments and sensitive nerves contribute to a healthy spine. Pain can be caused when any of these structures are affected by strain, injury or disease.

### The Alphatec Solution

Our principal product offering includes a wide variety of spinal solutions comprised of components such as access systems, interbody implants, fixation plates, screws and rods, instruments, and various biologics offerings all designed to enhance and promote spinal fusion. Our business is focused on treating multiple spine pathologies and conditions through a variety of MIS and traditional procedures.

### MIS Products

#### Battalion Lateral Spacer System and Squadron Lateral Retractor

The Battalion Lateral Spacer System with the Alphatec Squadron Lateral Retractor provides surgeons with a next-generation lateral system with innovative, unique design characteristics including, blade control technology that allows the surgeon to maintain approach aperture throughout the procedure, blade height adjustment and blade replacement, combined with the Battalion Lateral Spacer is available in a variety of width and height options for lumbar and thoracic approaches. Our Battalion lateral spacer system and Squadron lateral retractor received clearance of a FDA 510-(k) premarket notification from the U.S. Food and Drug Administration, or FDA, in 2016 and we commercially launched this solution in late 2017.

#### Illico Minimally Invasive Surgery System

The Illico Minimally Invasive Surgery System is a cannulated pedicle screw system that is designed to be inserted via a minimally invasive surgical procedure. We believe that the Illico Minimally Invasive Surgery System limits trauma to the tissue surrounding the location of the surgery, which is designed to enable patients to recover faster.

#### BridgePoint Spinous Process Fixation System

The BridgePoint system is a spinous process fixation system that was developed to address the disadvantages of traditional stabilization devices. The system allows surgeons to fixate the spine using a less invasive approach by

attaching a plate to the spinous process of the vertebral body during spinal fusion surgery.

#### Fixation Products

##### Arsenal Screw System

Arsenal System is a system for spinal fusion procedures. It was designed to provide operational efficiency, biomechanical strength, and surgical simplicity while providing a complete solution. We believe the combination of low-profile implants, intuitive instrumentation and proven strength of this system are significant advantages. The Arsenal System was designed to be the platform for future development in other spinal fusion segments of the market.

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## Zodiac Spinal Fixation System

Our Zodiac Spinal Fixation System can be used to address spinal conditions. The system offers polyaxial pedicle screws, accompanying implants and advanced instruments for the stabilization of the spine.

## Cervical and Cervico-Thoracic Products

### Trestle Luxe Anterior Cervical Plate System

Our Trestle Luxe Anterior Cervical Plate System has a large window that enables the surgeon to have improved graft site and end plate visualization, which is designed to allow for better placement of the plate. Other key features of the Trestle Luxe Anterior Cervical Plate include a self-retaining screw-locking mechanism that is designed to ensure quick and easy locking of the plate and a flush profile after the screws are inserted.

### Solanas Posterior Cervico/Thoracic Fixation System and Avalon Occipital Plate

Our Solanas Posterior Cervico/Thoracic Fixation System consists of rods, polyaxial screws, hooks, and connectors that provide a solution for posterior cervico/thoracic fusion procedures. We also designed the Solanas Posterior Cervico/Thoracic System to be used in combination with our existing Zodiac Spinal Fixation System and our Avalon Occipital Plate, thereby providing surgeons with a solution for occipito-cervico-thoracic fixation.

## Interbody Systems

### Battalion Universal Spacer System

The Battalion Universal Spacer System offers comfort, control and innovative design for surgeons performing PLIF/TLIF procedures. The Battalion implants introduce a new alternative to interbody fusion by combining the elasticity and radiolucency of polyetheretherketone, or PEEK, with a titanium coating for potential osseointegration.

The Battalion System also features state-of-the-art instrumentation for disc prep, access and implantation.

### Novel PEEK and Titanium Spinal Spacers

Our family of Novel spinal spacers addresses the surgical need to accommodate varying patient anatomies, surgical approaches and composite material options. We offer multiple unique implant designs, each of which is available in numerous shapes and heights. Certain of our Novel spinal spacers are made of titanium and others are made of PEEK.

### Alphatec Solus Locking ALIF Spinal Spacer

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

## Biologics

### AlphaGraft Structural Allograft Spacers

We offer a broad portfolio of allograft spacers available in a wide range of shapes and sizes, each with corresponding instrumentation, which are intended for use in the cervical, thoracic, and lumbar regions of the spine. In addition, many of our allograft spacers are packaged in our vacuum-infusion packaging system, or VIP System. The VIP

System is a packaging and fluid delivery system that allows for fast and efficient infusion of the surgeon's choice of hydration fluid. The VIP System provides rapid and uniform hydration, which may reduce the brittleness of the graft and shorten the length of the surgical procedure.

### AlphaGraft ProFuse Demineralized Bone Scaffold

Our AlphaGraft ProFuse Demineralized Bone Scaffold consists of a sponge-like demineralized bone matrix that has been pre-cut into sizes to fit within a spinal spacer. The AlphaGraft ProFuse Demineralized Bone Scaffold provides a natural scaffold derived entirely from bone that can be placed into a void within a spinal spacer or on top of a spinal spacer. The sponge-like qualities of the scaffold allow a surgeon to compress the scaffold and place it into a small space. The AlphaGraft ProFuse Demineralized Bone Scaffold is pre-packaged in our proprietary VIP System.

### Amnioshield Amniotic Tissue Barrier

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

### Alphagraft Demineralized Bone Matrix

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

### Neocore Osteoconductive Matrix

Our Neocore Osteoconductive Matrix is designed to provide an effective core environment for bone growth through a synthetic scaffold. When hydrated with patient bone marrow aspirate, or BMA, Neocore becomes a complete bone graft, which possesses all the necessary components of bone growth. Engineered to perform like natural bone, Neocore's composition and porosity provide the benefits of rapid revascularization throughout graft and supports replacement of three-dimensional matrix with healthy new bone growth. Offering excellent handling characteristics, these pre-formed strips are flexible to conform to adjacent structures, compressible, and moldable.

### Research and Development

Our research and development effort seeks to continually advance our core product offering and introduce new products to increase our penetration of the U.S. spine market. We are focused on developing technology that meaningfully improves clinical and patient outcomes. We have transformed our development process by leveraging integrated teams focused on the key platforms to reduce the time frame from product concept to market commercialization. We also collaborate with our surgeon partners to design products that improve the surgical experience, simplify techniques, and reduce overall costs, while improving patient outcomes. Our product development efforts are fully integrated in one facility allowing us to bring products from concept to market rapidly responding to surgeon and patient needs. Our resources include a technology advancement cell for rapid prototyping, a cadaveric lab, and mechanical testing laboratory.

### Sales and Marketing

We market and sell our products through a sales force consisting of dedicated and non-dedicated independent distributors and employee direct sales representatives. Our sales leadership is responsible for overseeing the overall sales channel process in their territories. Although surgeons in the U.S. typically make the ultimate decision to use our products, we generally bill the hospital for the products that are used and pay commissions to the sales representative or the sales agent based on payment received from the hospital. We compensate our direct sales employees and regional sales managers through salaries and incentive bonuses based on performance measures.

We are currently in the process of strengthening our sales channel by transitioning to a dedicated network. We are eliminating our traditional stocking distributors, converting existing distributor relationships to dedicated partnerships,

and attracting new, high-quality distributors to drive more predictable and sustainable future growth. We made significant progress in the transition of our distribution channel in 2017, driving the percent of sales contributed by dedicated agents and distributors from less than 10% in the fourth quarter of 2016 over 40% in the fourth quarter of 2017.

We evaluate and select our distribution partners and sales employees based on their expertise in selling spinal devices, reputation within the surgeon community, geographical coverage and established sales network.

We also employ a national accounts team that is responsible for securing access at hospitals and GPOs, across the U.S. We have had strong success with securing access to hospitals and GPOs. We believe this access is a key differentiator for us and much of our current business is achieved through these accounts. We will continue to focus our efforts and investment on developing and maintaining relationships with key GPOs and hospital networks to secure favorable contracts and develop strategies to convert or grow business within existing accounts.

We market our products at various industry conferences, organized surgical training courses, and in industry trade journals and periodicals.

#### Training and Education

We focus our surgeon training efforts on delivering critical technical skills needed on the entire spinal fusion procedure through a peer-to-peer approach to qualified surgeon customers. Well-timed surgeon education programs drive customer conversion and loyalty through leadership and excellence by focusing on delivering value through improved surgeon outcomes. We devote significant resources to training and education and are committed to a culture of scientific excellence and ethics.

We believe that one of the most effective ways to introduce and build market demand for our products is by training and educating spine surgeons, independent distributors, and direct sales representatives in the benefits and use of our products. Sales training programs will be a platform for learning and organizational development, ensuring the sales force is clinically competitive and considered an essential resource to all stakeholders. We focus on cross functional collaboration and alignment to deliver timely and relevant programs to meet surgeon and representative needs and positively impact the business.

Our training and education programs are designed to support new product introductions to the market as well as ongoing portfolio advancement. Our resources are nimble and responsive, and include field-based engagements to supplement our core curriculum. We believe this is an effective way to increase overall surgeon adoption of our new products.

We believe that surgeons, independent distributors, and direct sales representatives will become exposed to the merits and distinguishing features of our products through our training and education programs, and that such exposure will increase the use and promotion of our products. With a focus on the entire procedure, we expect to build awareness of the breadth of our product offering. We are conscientious in the pursuit of delivering value to all stakeholders. Our goal is to provide surgeon education programs coupled with a growing and comprehensive sales training platform that create a sustainable competitive advantage for our organization.

#### Manufacture and Supply

We rely on third-party suppliers for the manufacture of all of our implants and instruments. Outsourcing implant manufacturing reduces our need for capital investment and reduces operational expense. Additionally, outsourcing provides expertise and capacity necessary to scale up or down based on demand for our products. We select our suppliers to ensure that all of our products are safe, effective, adhere to all applicable regulations, are of the highest quality, and meet our supply needs. We employ a rigorous supplier assessment, qualification, and selection process targeted to suppliers that meet the requirements of the U.S. Food and Drug Administration, or FDA, and International Organization for Standardization, or ISO, and quality standards supported by internal policies and procedures. Our quality assurance process monitors and maintains supplier performance through qualification and periodic supplier reviews and audits.

The raw materials used in the manufacture of our non-biologic products are principally titanium, titanium alloys, stainless steel, cobalt chrome, ceramic, allograft, and PEEK. With the exception of PEEK, none of our raw material requirements is limited to any significant extent by critical supply. We are subject to the risk that Invibio, one of a



limited number of PEEK suppliers, will fail to supply PEEK in adequate amounts and in a timely manner. We believe our supplier relationships and quality processes will support our potential capacity needs for the foreseeable future.

With respect to biologics products, we are FDA-registered and licensed in the states of California, New York, and Florida, the only states that currently require licenses. Our facility and the facilities of the third-party suppliers we use are subject to periodic unannounced inspections by regulatory authorities and may undergo compliance inspections conducted by the FDA and corresponding state and foreign agencies. Because our biologics products are processed from human tissue, maintaining a steady supply can sometimes be challenging. We have not experienced significant difficulty in locating and obtaining the materials necessary to fulfill our production requirements, and we have not experienced a meaningful disruption to sales orders.

## Competition

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

- improved outcomes for spine pathology procedures;
- ease of use, quality and reliability of product portfolio;
- effective and efficient sales, marketing and distribution;
- quality service and an educated and knowledgeable sales network;
- technical leadership and superiority;
- surgeon services, such as training and education;
- responsiveness to the needs of surgeons;
- acceptance by spine surgeons;
- product price and qualification for reimbursement; and
- speed to market.

Both our currently marketed products and any future products we commercialize are subject to intense competition. We believe that our most significant competitors are Medtronic Sofamor Danek, Johnson & Johnson (DePuy/Synthes), Stryker, NuVasive, Zimmer, Biomet, Globus, K2M Medical, SeaSpine and others, many of which have substantially greater financial resources than we do. In addition, these companies may have more established distribution networks, entrenched relationships with physicians and greater experience in developing, launching, marketing, distributing and selling spinal implant products.

Some of our competitors also provide non-operative therapies for spine disorder conditions. While these non-operative treatments are considered to be an alternative to surgery, surgery is typically performed in the event that non-operative treatments are unsuccessful. We believe that, to date, these non-operative treatments have not caused a material reduction in the demand for surgical treatment of spinal disorders.

## Intellectual Property

We rely on a combination of patent, trademark, copyright, trade secret and other intellectual property laws, nondisclosure agreements, proprietary information ownership agreements and other measures to protect our intellectual property rights. We believe that in order to have a competitive advantage, we must develop, maintain and enforce the proprietary aspects of our technologies. We require our employees, consultants, co-developers, distributors and advisors to execute agreements governing the ownership of proprietary information and use and disclosure of confidential information in connection with their relationship with us. In general, these agreements require these individuals and entities to agree to disclose and assign to us all inventions that were conceived on our behalf or which relate to our property or business and to keep our confidential information confidential and only use such confidential information in connection with our business.

## Patents

As of March 6, 2018, we and our affiliates owned, or exclusively owned 114 issued U.S. patents, 61 pending U.S. patent applications and 95 issued or pending foreign patents. We own multiple patents relating to unique aspects and improvements for several of our products. We do not believe that the expiration of any single patent is likely to significantly affect our intellectual property position.

## Trademarks

As of March 6, 2018, we and our affiliates owned 38 registered U.S. trademarks and 116 registered trademarks outside of the U.S.

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## Government Regulation

Our products are subject to extensive regulation by the FDA and other U.S. federal and state regulatory bodies and comparable authorities in other countries. Our products are subject to regulation under the Federal Food, Drug, and Cosmetic Act, or FDCA, and in the case of our tissue products, also under the Public Health Service Act, or PHSA. To ensure that our products are safe and effective for their intended use, the FDA regulates, among other things, the following activities that we or our partners perform and will continue to perform:

- product design and development;
- product testing;
- non-clinical and clinical research;
- product manufacturing;
- product labeling;
- product storage;
- premarket clearance or approval;
- advertising and promotion;
- product marketing, sales and distribution;
- import and export; and
- post-market surveillance, including reporting deaths or serious injuries related to products and certain product malfunctions.

### Government Regulation – Medical Devices

#### FDA's Premarket Clearance and Approval Requirements

Unless an exemption applies, each medical device we wish to commercially distribute in the United States will require either FDA clearance of a premarket notification requesting permission for commercial distribution under Section 510(k) of the Federal Food, Drug and Cosmetic Act, or FDCA, also referred to as a 510(k) clearance, or approval of a premarket approval application, or PMA. The information that must be submitted to the FDA in order to obtain clearance or approval to market a new medical device varies depending on how the medical device is classified by the FDA. Under the FDCA medical devices are classified into one of three classes—Class I, Class II or Class III—depending on the degree of risk associated with the use of the device and the extent of manufacturer and regulatory controls deemed to be necessary by the FDA to reasonably ensure their safety and effectiveness.

Class I devices are those with the lowest risk to the patient for which safety and effectiveness can be reasonably assured by adherence to a set of regulations, referred to as General Controls, which require compliance with the applicable portions of the FDA's Quality System Regulation, or QSR, facility registration and product listing, reporting of adverse events and malfunctions, and appropriate, truthful and non-misleading labeling and promotional materials. Some Class I devices also require 510(k) clearance by the FDA, though most Class I devices are exempt from the premarket notification requirements. Class II devices are those that are subject to the General Controls, as well as Special Controls, which can include performance standards, product-specific guidance documents and postmarket surveillance. Manufacturers of most Class II devices are required to submit to the FDA a premarket notification under Section 510(k) of the FDCA. Class III devices include devices deemed by the FDA to pose the greatest risk such as life-supporting or life-sustaining devices, or implantable devices, in addition to those deemed not substantially equivalent following the 510(k) process. The safety and effectiveness of Class III devices cannot be reasonably assured solely by compliance with the General Controls and Special Controls described above. Therefore, these devices must be the subject of an approved PMA. Both 510(k)s and PMAs are subject to the payment of user fees at the time of submission for FDA review.

If the FDA determines that the device is not "substantially equivalent" to a predicate device following submission and review of a 510(k) premarket notification, or if the manufacturer is unable to identify an appropriate predicate device and the new device or new use of the device presents a moderate or low risk, the device sponsor may either pursue a

PMA approval or seek reclassification of the device through the de novo process. Our current products on the market in the U.S. are Class II devices marketed under FDA 510(k) premarket clearance.

#### 510(k) Clearance Pathway

To obtain 510(k) clearance, we must submit a premarket notification demonstrating that the proposed device is substantially equivalent to a device legally marketed in the United States. A predicate device is a legally marketed device that is not subject to

premarket approval, i.e., a device that was legally marketed prior to May 28, 1976 (pre-amendments device) and for which a PMA is not required, a device that has been reclassified from Class III to Class II or I, or a device that was found substantially equivalent through the 510(k) process. To be "substantially equivalent," the proposed device must have the same intended use as the predicate device, and either have the same technological characteristics as the predicate device or have different technological characteristics and not raise different questions of safety or effectiveness than the predicate device. Clinical data is sometimes required to support substantial equivalence.

The FDA's goal is to review and act on each 510(k) within 90 days of submission, but the process usually takes from nine to 12 months, and it may take longer if the FDA requests additional information. Most 510(k)s do not require supporting data from clinical trials, but the FDA may request such data. If the FDA agrees that the device is substantially equivalent, it will grant clearance to commercially market the device.

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a new or major change in its intended use, will require a new 510(k) clearance or, depending on the modification, require premarket approval. The FDA requires each manufacturer to determine whether the proposed change requires the submission of a 510(k) or PMA, but the FDA can review any such decision and can disagree with a manufacturer's determination. If the FDA disagrees with a manufacturer's determination, the FDA can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or PMA is obtained. If the FDA requires us to seek a new 510(k) clearance or PMA for any modifications to a previously cleared product, we may be required to cease marketing or recall the modified device until we obtain this clearance or approval. Also, in these circumstances, we may be subject to significant fines or penalties. We have made and plan to continue to make enhancements to our products for which we have not submitted 510(k)s or PMAs, and we will consider on a case-by-case basis whether a new 510(k) or PMA is necessary.

The FDA began to consider proposals to reform its 510(k) marketing clearance process in 2011, and such proposals could include increased requirements for clinical data and a longer review period. Specifically, in response to industry and healthcare provider concerns regarding the predictability, consistency and rigor of the 510(k) regulatory pathway, the FDA initiated an evaluation of the 510(k) program, and as part of the Food and Drug Administration Safety and Innovation Act, or FDASIA, Congress reauthorized the Medical Device User Fee Amendments with various FDA performance goal commitments and enacted several "Medical Device Regulatory Improvements" and miscellaneous reforms, which are further intended to clarify and improve medical device regulation both pre- and post-clearance and approval. Further, in December 2016, the 21st Century Cures Act, or Cures Act, was signed into law. The Cures Act, among other things, is intended to modernize the regulation of devices and spur innovation, but its ultimate implementation is unclear.

### Premarket Approval Pathway

Class III devices require PMA approval before they can be marketed, although some pre-amendment Class III devices for which the FDA has not yet required a PMA are cleared through the 510(k) process. The PMA process is generally more complex, costly and time consuming than the 510(k) process. A PMA must be supported by extensive data including, but not limited to, extensive technical information regarding device design and development, preclinical and clinical trials, manufacturing and labeling information to demonstrate to the FDA's satisfaction the safety and effectiveness of the device for its intended use. The PMA application must provide valid scientific evidence that demonstrates to the FDA's satisfaction reasonable assurance of the safety and effectiveness of the device for its intended use. Following receipt of a PMA, the FDA determines whether the application is sufficiently complete to permit a substantive review. If the FDA accepts the application for review, it has 180 days under the FDCA to complete its review of the PMA, although in practice, the FDA's review often takes significantly longer, and can take up to several years. During this review period, the FDA may request additional information or clarification of information already provided, and the FDA may issue a major deficiency letter to the applicant, requesting the applicant's response to deficiencies communicated by the FDA. Also during the review period, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. The FDA may or may not accept the panel's recommendation. In addition, the FDA will conduct a preapproval inspection of the manufacturing facility to ensure compliance with quality system regulation, or QSR. The PMA process can be expensive, uncertain and lengthy, and a number of devices for which FDA approval has been sought by other companies have never been approved by the FDA for marketing.

### Clinical Trials

Clinical trials are almost always required to support a PMA and are sometimes required for a 510(k). All clinical investigations of investigational devices to determine safety and effectiveness must be conducted in accordance with the FDA's investigational device exemption, or IDE, regulations which govern investigational device labeling, prohibit promotion of the investigational device, and specify an array of recordkeeping, reporting and monitoring responsibilities of study sponsors and study investigators. If the device is determined to present a "significant risk" to human health, the manufacturer may not begin a clinical trial until it submits an IDE application to the FDA and obtains approval of the IDE from the FDA. The IDE must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. In addition, the study must be approved by, and conducted under the oversight of, an Institutional Review Board, or IRB, for each clinical site. The IRB is responsible for the initial and continuing review of the IDE, and may pose additional requirements for the conduct of the study. If an IDE application is approved by the FDA and one or more IRBs, human clinical trials may begin at a specific number of investigational sites with a specific number of patients, as approved by the FDA. If the device presents a non-significant risk to the patient, a sponsor may begin the clinical trial after obtaining approval for the trial by one or more IRBs without separate approval from the FDA, but must still follow abbreviated IDE requirements, such as monitoring the investigation, ensuring that the investigators obtain informed consent, and labeling and record-keeping requirements. A clinical trial may be suspended by FDA, the sponsor or an IRB at any time for various reasons, including a belief that the risks to the study participants outweigh the benefits of participation in the trial. Even if a clinical trial is completed, the results may not demonstrate the safety and efficacy of a device to the satisfaction of the FDA, or may be equivocal or otherwise not be sufficient to obtain approval of a device.

### Pervasive and Continuing FDA Regulation

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

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registration and listing requirements, which require manufacturers to register all manufacturing facilities and list all medical devices placed into commercial distribution;

the QSR, which requires manufacturers, including third-party contract manufacturers, to follow stringent design, testing, control, supplier/contractor selection, documentation, record maintenance and other quality assurance controls, during all aspects of the manufacturing process and to maintain and investigate complaints;

labeling regulations and unique device identification requirements;

advertising and promotion requirements;

restrictions on sale, distribution or use of a device;

FDA prohibitions against the promotion of products for uncleared or unapproved “off-label” uses; medical device reporting obligations, which require that manufacturers submit reports to the FDA of device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to reoccur;

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- medical device correction and removal reporting regulations, which require that manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FDCA that may present a risk to health;

- device tracking requirements; and

- other post-market surveillance requirements, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device.

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

- warning letters and untitled letters;

- fines, injunctions, consent decrees, and civil penalties;

- recalls, withdrawals, administrative detention, or seizure of products;

- operating restrictions, partial suspension or total shutdown of production;

- withdrawals of 510(k) clearances or PMA approvals that have already been granted;

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

- criminal prosecution.

Our facilities, records and manufacturing processes are subject to periodic announced and unannounced inspections by the FDA to evaluate compliance with applicable regulatory requirements.

#### Regulation of Human Cells, Tissues, and Cellular and Tissue-based Products

Certain of our products are regulated as human cells, tissues, and cellular and tissue-based products, or HCT/Ps. Section 361 of the PHSA authorizes the FDA to issue regulations to prevent the introduction, transmission or spread of communicable disease. HCT/Ps regulated as “361” HCT/Ps are subject to requirements relating to registering facilities and listing products with the FDA, screening and testing for tissue donor eligibility, or Good Tissue Practice, when processing, storing, labeling, and distributing HCT/Ps, including required labeling information, stringent record keeping, and adverse event reporting, among other applicable requirements and laws. If the HCT/P is minimally manipulated, is intended for homologous use only and meets other requirements, the HCT/P will not require 510(k) clearance, PMA approval, a Biologics License Applications, or other premarket authorization from the FDA before marketing.

#### Environmental Matters

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

#### Compliance with Certain Applicable Statutes

We are subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws, false claims laws, criminal health care fraud laws, physician payment transparency laws, data privacy and security laws and foreign corrupt practice laws. Violations of these laws are punishable by criminal and/or civil sanctions, including, in some instances, fines, imprisonment and, within the United States, exclusion from participation in government healthcare programs, including Medicare, Medicaid and Veterans Administration health programs. These laws are administered by, among others, the U.S. Department of Justice, the Office of Inspector

General of the Department of Health and Human Services and state attorneys general. Many of these agencies have increased their enforcement activities with respect to medical device manufacturers in recent years.

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

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

We have entered into various agreements with certain surgeons that perform services for us, including some who make clinical decisions to use our products. Some of our referring surgeons own our stock, which they received from us as consideration for services performed. From time to time, we review these arrangements to determine whether they are in compliance with applicable laws and regulations. In addition, physician-owned distribution companies, or PODs, have increasingly become involved in the sale and distribution of medical devices, including products for the surgical treatment of spine disorders. In many cases, these distribution companies enter into arrangements with hospitals that bill Medicare or Medicaid for the furnishing of medical services, and the physician-owners are among the physicians who refer patients to the hospitals for surgery. On March 26, 2013 the OIG issued a Special Fraud Alert entitled "Physician-Owned Entities", or the Fraud Alert, in which the OIG concluded, among other things, that PODs are "inherently suspect under the anti-kickback statute" and that PODs present "substantial fraud and abuse risk and pose dangers of patient safety." Since 2013, the OIG has further increased its scrutiny of PODs and the Department of Justice has brought several high-profile cases against physician owners.

The federal False Claims Act prohibits persons from knowingly filing or causing to be filed a false or fraudulent claim to, or the knowing use of false statements to obtain payment from, the federal government. Private suits filed under the False Claims Act, known as qui tam actions, can be brought by individuals on behalf of the government. These individuals, sometimes known as “relators” or, more commonly, as “whistleblowers,” may share in any amounts paid by the entity to the government in fines or settlement. The number of filings of qui tam actions has increased significantly in recent years, causing more healthcare companies to have to defend a False Claim Act action. If an entity is determined to have violated the federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties of between \$10,000 to \$22,000 for each separate false claim and may be subject to exclusion from Medicare, Medicaid and other federal healthcare programs. Various states have also enacted similar laws modeled after the federal False Claims Act which apply to items and services

reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

The Health Insurance Portability and Accountability Act, or HIPAA, created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. The ACA changed the intent requirement of the healthcare fraud statute to such that a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. A violation of this statute is a felony and may result in fines, imprisonment or possible exclusion from Medicare, Medicaid and other federal healthcare programs. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. A violation of this statute is a felony and may result in similar sanctions.

ACA also includes various provisions designed to strengthen significantly fraud and abuse enforcement in addition to those changes discussed above. Among these additional provisions include increased funding for enforcement efforts and new “sunshine” provisions to require us to report and disclose to the Centers for Medicare and Medicaid Services, or CMS, any payment or “transfer of value” made or distributed to physicians or teaching hospitals. These sunshine provisions also require certain group purchasing organizations, including physician-owned distributors, to disclose physician ownership information to CMS. We and other device manufacturers are required to collect and annually report specific data on payments and other transfers of value to physicians and teaching hospitals. There are various state laws and initiatives that require device manufacturers to disclose to the appropriate regulatory agency certain payments or other transfers of value made to physicians, and in certain cases prohibit some forms of these payments, with the risk of fines for any violation of such requirements.

HIPAA also includes privacy and security provisions designed to regulate the use and disclosure of “protected health information”, or PHI, which is health information that identifies a patient and that is held by a health care provider, a health plan or health care clearinghouse. We are not directly regulated by HIPAA, but our ability to access PHI for purposes such as marketing, product development, clinical research or other uses is controlled by HIPAA and restrictions placed on health care providers and other covered entities. HIPAA was amended in 2009 by the Health Information Technology for Economic and Clinical Health Act, or HITECH, which strengthened the rule, increased penalties for violations and added a requirement for the disclosure of breaches to affected individuals, the government and in some cases the media. We must carefully structure any transaction involving PHI to avoid violation of HIPAA and HITECH requirements.

Almost all states have adopted data security laws protecting personal information including social security numbers, state issued identification numbers, credit card or financial account information coupled with individuals’ names or initials. We must comply with all applicable state data security laws, even though they vary extensively, and must ensure that any breaches or accidental disclosures of personal information are promptly reported to affected individuals and responsible government entities. We must also ensure that we maintain compliant, written information security programs or run the risk of civil or even criminal sanctions for non-compliance as well as reputational harm for publicly reported breaches or violations.

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

### Third-Party Reimbursement

In the U.S., healthcare providers generally rely on third-party payors, principally private insurers and governmental payors such as Medicare and Medicaid, to cover and pay for all or part of the cost of a spine surgery in which our medical devices are used. We expect that sales volumes and prices of our products will depend in large part on the continued availability of reimbursement from such third-party payors. These third-party payors may deny reimbursement if they determine that a device used in a procedure was not medically necessary in accordance with cost-effective treatment methods, as determined by the third-party payor, or was used for an unapproved indication. Particularly in the U.S., third-party payors continue to carefully review, and increasingly challenge, the prices charged for procedures and medical products. Medicare coverage and reimbursement policies are developed by CMS, the federal agency responsible for administering the Medicare program, and its contractors. CMS establishes these Medicare policies for medical products and procedures and such policies are periodically reviewed and updated. While private payors vary in their coverage and payment policies, the Medicare program is viewed as a benchmark. Medicare payment rates for the same or similar procedures vary due to geographic location, nature of the facility in which the procedure is performed (i.e., teaching or community hospital) and other factors. We cannot assure you that government or private third-party payors will cover and provide adequate payment for the procedures in which our products are used. ACA and other reform proposals contain significant changes regarding Medicare, Medicaid and

other third party payors.

Among these changes was the imposition of a 2.3% excise tax on domestic sales of medical devices that went into effect on January 1, 2013. This tax has resulted in a significant increase in the tax burden on our industry. In December 2015, the U.S. Congress adopted and President Obama signed into law the Consolidated Appropriations Act of 2016. Among other things, this legislation put in place a two-year moratorium on the device tax through the end of 2017. Other elements of the ACA include numerous provisions to limit Medicare spending through reductions in various fee schedule payments and by instituting more sweeping payment reforms, such as bundled payments for episodes of care, the establishment of “accountable care organizations” under which hospitals and physicians will be able to share savings that result from cost control efforts, comparative effectiveness research, value-based purchasing, and the establishment of an independent payment advisory board.

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We expect that the new Presidential administration and U.S. Congress will seek to modify, repeal, or otherwise invalidate all, or certain provisions of, the ACA. Since its enactment, there have also been other judicial and Congressional challenges to certain aspects of the ACA. As a result, there have been delays in the implementation of, and action taken to repeal or replace, certain aspects of the ACA. In March 2017, the United States House of Representatives introduced legislation known as the American Health Care Act, or the AHCA, which, if enacted, would amend or repeal significant portions of the ACA. Among other changes, the AHCA, would repeal the medical device tax, eliminate penalties on individuals and employers that fail to maintain or provide minimum essential coverage and create refundable tax credits to assist individuals in buying health insurance. The AHCA would also make significant changes to Medicaid by, among other things, making Medicaid expansion optional for states, repealing the requirement that state Medicaid plans provide the same essential health benefits that are required by plans available on the exchanges, modifying federal funding, including implementing a per capita cap on federal payments to states, and changing certain eligibility requirements. While it is uncertain when or if the provisions in the AHCA will become law, or the extent to which any such changes may impact our business, it is clear that concrete steps are being taken to repeal and replace certain aspects of the ACA. In January 2018, a stopgap spending arrangement signed by President Trump included an additional two-year moratorium on the device tax, which will delay the tax through the end of 2019.

In addition, other legislative changes have been proposed and adopted since the ACA was enacted. These changes include the Budget Control Act of 2011, which resulted in reductions to Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013 and will stay in effect through 2025 unless additional Congressional action is taken, as well as, the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several types of providers, including hospitals and imaging centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. An expansion in government's role in the U.S. healthcare industry may lower reimbursements for procedures using our products, reduce medical procedure volumes, and adversely affect our business and results of operations, possibly materially.

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

## Employees

As of March 2, 2018, we had 138 employees in the U.S., approximately 117 of which were based in our Carlsbad, California headquarters, covering all of the following functional areas: sales, customer service, marketing, clinical education, advanced manufacturing, quality assurance, regulatory affairs, research and development, human resources, finance, legal, information technology and administration. We have never experienced a work stoppage due to labor difficulties and believe that our relations with our employees are good. We currently have no employees working under collective bargaining agreements.

## Corporate and Available Information

We are a Delaware corporation. We were incorporated in March 2005. Our principal executive office is located at 5818 El Camino Real, Carlsbad, California 92008. Our Internet address is [www.alphatecspine.com](http://www.alphatecspine.com). We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, are available to you free of charge through the Investor Relations section of

our website as soon as reasonably practicable after such materials have been electronically filed with, or furnished to, the Securities and Exchange Commission, or SEC.



## Item 1A. Risk Factors

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

### Risks Related to Our Business and Industry

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

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

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

The market for spine fusion products and procedures is intensely competitive, subject to rapid technological change and significantly affected by new product introductions and other market activities of industry participants. In 2016, a significant percentage of global spine implant product revenues was generated by Medtronic Sofamor Danek, a subsidiary of Medtronic, Inc.; Depuy Spine, a subsidiary of Johnson & Johnson; and Stryker Spine. Our competitors also include numerous other publicly-traded and privately-held companies such as NuVasive, Zimmer, Biomet, Globus, K2M Medical and SeaSpine.

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

- more established relationships with spine surgeons;
- more established distribution networks;
- broader spine surgery product offerings;
- stronger intellectual property portfolios;
- greater financial and other resources for product research and development, sales and marketing, and patent litigation;

- greater experience in, and resources for, launching, marketing, distributing and selling products;
- significantly greater name recognition as well as more recognizable trademarks for products similar to the products that we sell;
- more established relationships with healthcare providers and payors;
- products supported by more extensive clinical data; and
- greater experience in obtaining and maintaining FDA and other regulatory clearances or approvals for products and product enhancements.

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

The sale of our international distribution operations and agreements will reduce our revenue, and we may not be successful in executing on our business strategy to solely focus on the U.S. marketplace.

Prior to the sale of our International operations in September 2016, our international revenue represented approximately 35% of our total revenue for the six months ended June 30, 2016 and year ended December 31, 2015. Following the closing of the Globus Transaction, our revenues have been and will continue to be materially reduced as we will no longer be generating the same level of revenue from the operations and assets sold in the transaction. There can be no assurance that the proceeds from the Globus Transaction will be sufficient for us to grow our U.S. business. In addition, our future growth will depend on our ability to successfully implement our strategy to focus solely on the U.S. marketplace. If we are unable to successfully execute on this business strategy or otherwise compete effectively within the U.S. marketplace, our business, financial condition, results of operations and growth prospects would be materially and adversely affected.

We may face indemnity and other liability claims pursuant to the Globus Purchase and Sale Agreement.

Under the purchase and sale agreement for the sale of our international business to Globus, we are obligated to indemnify Globus against damages arising from, among other things, breaches of our representations, warranties or obligations under the agreement and liabilities not assumed by Globus. The indemnification period generally runs for a period of 18 months from the Closing, with longer survival periods for certain specified representations and warranties. Our indemnification obligations are subject to a deductible in certain cases of \$500,000, and our aggregate liability under such indemnification claims is generally limited to \$12.0 million, \$20.0 million for certain specified representations and warranties, and the full purchase price for breaches of certain specified representations and warranties, breaches of covenants and certain other matters. If Globus makes an indemnification claim, we may incur liability and/or expenses, which could harm our operating results. In addition, such indemnity claims may divert management attention from our continuing business.

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

Net sales of our systems that include polyaxial pedicle screws represented approximately 52% and 50% of our net sales for 2017 and 2016, respectively. A decline in sales of these systems, due to lower market demand, the introduction by a third party of a competitive product, an intellectual property dispute involving these systems, or otherwise, would have a significant adverse impact on our business, financial condition and results of operations. Some of the technology related to our polyaxial pedicle screw systems is licensed to us. Any action that would prevent us from manufacturing, marketing and selling our polyaxial pedicle screw systems would have a significant adverse effect on our business, financial condition and results of operations.

Our sales and marketing efforts are largely dependent upon third parties, many of which are free to market products that compete with our products.

Many of our independent distributors also market and sell the products of our competitors, and those competitors may have the ability to influence the products that our independent distributors choose to market and sell. Our competitors may be able, by offering higher commission payments or otherwise, to convince our independent distributors to terminate their relationships with us, carry fewer of our products or reduce their sales and marketing

efforts for our products.

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

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

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

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

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

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

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

We rely on a limited number of third parties to manufacture and supply our products. Any problems experienced by any of these manufacturers could result in a delay or interruption in the supply of our products to us until such manufacturer cures the problem or until we locate and qualify an alternative source of supply.

We rely on third party suppliers for the manufacture of our implants and instruments. We currently rely on a limited number of third party suppliers and any prolonged disruption in the operations of our third party suppliers could have a significant negative impact on our ability to supply our products to customers and to perform our obligations under the Supply Agreement with Globus, and would cause us to seek additional third-party manufacturing contracts, which may not be available on acceptable terms, if at all. We may suffer losses as a result of business interruptions that exceed coverage under our manufacturer's insurance policies. Events beyond our control, such as natural disasters, fire, sabotage or business accidents could have a significant negative impact on our operations by disrupting our product development and commercialization efforts until such third-party supplier can repair its facility or put in place third-party contract manufacturers to assume this manufacturing role, which we may not be able to do on reasonable terms, if at all. In addition, if we are required to change manufacturers for any reason, we will be required to verify that the new manufacturer maintains facilities and procedures that comply with quality standards and with all applicable regulations and guidelines. The delays associated with the verification of a new manufacturer or the re-verification of an existing manufacturer could negatively affect our ability to develop products or supply products

to customers in a timely manner. Any disruption in the manufacture of our products by our third party suppliers could have a material adverse impact on our business, financial condition and results of operations.

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

We use a number of raw materials, including titanium, titanium alloys, stainless steel, PEEK, and human tissue. We rely from time to time on a number of suppliers and in one case on a single source vendor, Invibio. We have a supply agreement with Invibio, pursuant to which it supplies us with PEEK, a biocompatible plastic that we use in some of our spacers. Invibio is one of a limited number of companies approved to distribute PEEK in the U.S. for use in implantable devices. During 2017 and 2016, approximately 19% and 20% of our revenues were derived from products manufactured using PEEK, respectively.

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

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

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

The FDA regulates human cells, tissues, and cellular and tissue-based products or HCT/Ps, but the extent to which they are regulated depends on how they are manufactured and used and whether they meet other criteria for minimal regulation. These criteria include but are not limited to the use of the HCT/Ps for homologous use only and minimal manipulation of the HCT/Ps. These HCT/Ps are regulated by the FDA solely under Section 361 of the Public Health Service Act and are referred to as “Section 361 HCT/Ps,” while other HCT/Ps are subject to FDA’s regulatory requirements applicable to medical devices or biologics. Section 361 HCT/Ps do not require 510(k) clearance, PMA approval, licensure of a biologics license application, or BLA, or other premarket authorization from FDA before marketing. We believe our HCT/Ps are regulated solely under Section 361 of the PHSA, and therefore, we have not sought or obtained 510(k) clearance, PMA approval, or licensure through a BLA. The FDA could disagree with our determination that our tissue-based products are Section 361 HCT/Ps and could determine that these products are biologics requiring a BLA or medical devices requiring 510(k) clearance or PMA approval, and could require that we cease marketing such products and/or recall them pending appropriate clearance, approval or license from the FDA. If the FDA determines that any of our current or future products contain HCT/Ps that do not meet the criteria for regulation as a Section 361 HCT/P, it could subject some of our products to additional review and regulatory oversight. If this were to happen, further distribution of the affected products could be interrupted for a substantial period of time, which would reduce our revenues and hurt our profitability.

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 QSR, which covers, 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 HCT must comply with the FDA’s current good tissue practice requirements, or cGTPs, which govern the methods used in and the facilities and controls used for the manufacture of HCT/Ps, record keeping and the establishment of a quality program. The FDA audits compliance with the QSR 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.



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

In response to perceived increases in health care costs in recent years, there have been and continue to be proposals by the federal government, state governments, regulators and third-party payors to control these costs and, more generally, to reform the U.S. healthcare system. Certain of these proposals could limit the prices we are able to charge for our products or the amounts of reimbursement available for our products, limit the acceptance and availability of our products, and have a material adverse effect on our financial position and results of operations. An expansion in government's role in the U.S. healthcare industry may lower reimbursements for procedures using our products, reduce medical procedure volumes and adversely affect our business and results of operations, possibly materially.

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

Sales of our products depend in part on the availability of adequate coverage and reimbursement from governmental and private payors. In the U.S., healthcare providers that purchase our products generally rely on third-party payors, principally Medicare, Medicaid and private health insurance plans, to pay for all or a portion of the costs and fees associated with the use of our products. In addition, several million individuals were able to purchase health insurance in 2014 for the first time through health insurance "exchanges" established under the ACA. While procedures using our currently marketed products are eligible for reimbursement in the U.S., if surgical procedures utilizing our products are performed on an outpatient basis, it is possible that private payors may no longer provide reimbursement for the procedures using our products without further supporting data on the procedure. Any delays in obtaining, or an inability to obtain, adequate coverage or reimbursement for procedures using our products could significantly affect the acceptance of our products and have a significant adverse effect on our business. Additionally, third-party payors continue to review their coverage policies carefully for existing and new therapies and can, without notice, deny coverage for treatments that include the use of our products. Our business would be negatively impacted if there are any changes that reduce reimbursement for our products.

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

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

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

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

Although we do not provide healthcare services, submit claims for third-party reimbursement, or receive payments directly from Medicare, Medicaid, or other third-party payors for our products or the procedures in which our products are used, healthcare regulation by federal and state governments significantly impacts our business. Healthcare fraud and abuse, health information privacy and security, and disclosure laws potentially applicable to our operations include:

- the federal Anti-Kickback Statute, as well as state analogs, which constrains our marketing practices and those of our independent sales agents and distributors, educational programs, pricing policies, and relationships with healthcare providers by prohibiting, among other things, knowingly and willfully soliciting, receiving, offering or providing remuneration, intended to induce the purchase or recommendation of an item or service reimbursable under a federal (or state or commercial) healthcare program (such as the Medicare or Medicaid programs);
- the federal ban, as well as state analogs, on physician self-referrals, which prohibits, subject to certain exceptions, physician referrals of Medicare and Medicaid patients to an entity providing certain “designated health services” if the physician or an immediate family member of the physician has any financial relationship with the entity;
- federal false claims laws which prohibit, among other things, knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent;
- HIPAA, and its implementing regulations, which created federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- the state and federal laws “sunshine” provisions that require detailed reporting and disclosures to CMS and applicable states of any payments or “transfer of value” made or distributed to prescribers and other health care providers, and for certain states prohibit some forms of these payments, require the adoption of marketing codes of conduct, require the reporting of marketing expenditures and pricing information and constrain relationships with physicians and other referral sources;
- state laws analogous to each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy of certain health information, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts;
- the Administrative Simplification provisions of HIPAA, specifically, privacy and security provisions including recent amendments under HITECH which impose stringent restrictions on uses and disclosures of protected health information such as for marketing or clinical research purposes and impose significant civil and criminal penalties for non-compliance and require the reporting of breaches to affected individuals, the government and in some cases the media in the event of a violation; and
- a variety of state-imposed privacy and data security laws which require the protection of information beyond health information, such as employee information or any class of information combining name with state issued identification numbers, social security numbers, credit card, bank or other financial information and which require reporting to state officials in the event of breach or violation and which impose both civil and criminal penalties.

ACA includes various provisions designed to strengthen significantly fraud and abuse enforcement, such as increased funding for enforcement efforts and the lowering of the intent requirement of the federal Anti-Kickback Statute and criminal healthcare fraud statute such that a person or entity no longer needs to have actual knowledge of these statutes or specific intent to violate them.

If our past or present operations, or those of our independent sales agents and distributors are found to be in violation of any of such laws or any other governmental regulations that may apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from federal healthcare programs and/or the curtailment or restructuring of our operations. Similarly, if the healthcare providers, sales agents, distributors or other entities with which we do business are found to be non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on us. Any penalties, damages, fines, curtailment or restructuring

of our operations could adversely affect our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the Courts, and their provisions are open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

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The sales and marketing practices of our industry have been the subject of increased scrutiny from federal and state government agencies, and we believe that this trend will continue. For example, on March 26, 2013 the OIG issued a Special Fraud Alert entitled "Physician-Owned Entities" related to physician-owned distributors, or PODS. Since 2013, the OIG has further increased its scrutiny of PODs and the Department of Justice has brought several high profile cases against physician owners. Prosecutorial scrutiny and governmental oversight over some major device companies regarding the retention of healthcare professionals as consultants has affected and may continue to affect the manner in which medical device companies may retain healthcare professionals as consultants. Any precautions we take to detect and prevent noncompliance with applicable laws may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations. Any action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

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

Our medical devices are subject to extensive regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining regulatory clearances or approvals to market a medical device, particularly from the FDA, can be costly and time consuming, and there can be no assurance that such clearances or approvals will be granted on a timely basis, if at all. In particular, the FDA permits commercial distribution of most new medical devices only after the devices have received clearance under Section 510(k) of the Federal Food, Drug and Cosmetic Act, or 510(k), or are the subject of an approved premarket approval application, or a PMA. The 510(k) process generally takes three to nine months, but can take significantly longer, especially if the FDA requires a clinical trial to support the 510(k) application. Currently, we do not know whether the FDA will require clinical data in support of any 510(k)s that we intend to submit for other products in our pipeline. In addition, the FDA continues to re-examine its 510(k) clearance process for medical devices and published several draft guidance documents that could change that process. Any changes that make the process more restrictive could increase the time it takes for us to obtain clearances or could make the 510(k) process unavailable for certain of our products. A PMA must be submitted to the FDA if the device cannot be cleared through the 510(k) process or is not exempt from premarket review by the FDA. A PMA must be supported by extensive data, including results of preclinical studies and clinical trials, manufacturing and control data and proposed labeling, to demonstrate to the FDA's satisfaction the safety and effectiveness of the device for its intended use. The PMA process is more costly and uncertain than the 510(k) clearance process, and generally takes between one and three years, if not longer. In addition, any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, requires a new 510(k) clearance or, possibly, a PMA.

Modifications to products that are approved through a PMA application generally need FDA approval. Similarly, some modifications made to products cleared through a 510(k) may require a new 510(k). Our commercial distribution and marketing of any products or product modifications that we develop will be delayed until regulatory clearance or approval is obtained. In addition, because we cannot assure you that any new products or any product modifications we develop will be subject to the shorter 510(k) clearance process, the regulatory approval process for our new products or product modifications may take significantly longer than anticipated. There is no assurance that the FDA will not require a new product or product modification to go through the lengthy and expensive PMA approval process. The FDA can delay, limit or deny clearance or approval of a device for many reasons, including:

- our inability to demonstrate to the satisfaction of the FDA or the applicable regulatory entity or notified body that our products are safe or effective for their intended uses;
- the disagreement of the FDA or the applicable foreign regulatory body with the design or implementation of our clinical trials or the interpretation of data from pre-clinical studies or clinical trials;
- serious and unexpected adverse device effects experienced by participants in our clinical trials;
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the data from our pre-clinical studies and clinical trials may be insufficient to support clearance or approval, where required;

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our inability to demonstrate that the clinical and other benefits of the device outweigh the risks;  
the manufacturing process or facilities we use may not meet applicable requirements; or  
the potential for approval policies or regulations of the FDA or applicable foreign regulatory bodies to change significantly in a manner rendering our clinical data or regulatory filings insufficient for clearance or approval. Delays in obtaining regulatory clearances and approvals may:

- delay or prevent commercialization of products we develop;
- require us to perform costly tests or studies;
  - diminish any competitive advantages that we might otherwise have obtained; and
- reduce our ability to collect revenues.

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

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

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

Failure to comply with post-marketing regulatory requirements could subject us to enforcement actions, including substantial penalties, and might require us to recall or withdraw a product from the market.

Once a medical device is cleared or approved, a manufacturer must notify the FDA of any modifications to the device. Any modification to a device that has received FDA clearance that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, requires premarket clearance or possibly approval of a PMA. The FDA requires every manufacturer to make the determination in the first instance regarding whether a modification to a cleared or approved device necessitates the filing of a new 510(k) notification or PMA supplement. The FDA may review any manufacturer's decision and can disagree. If the FDA disagrees with any future determination by us that a new clearance or approval is not required, we may need to cease marketing or to recall the modified product until and unless we obtain clearance or approval. In addition, we could also be subject to significant regulatory fines or penalties. Any of these outcomes would harm our business.





The regulations to which we are subject are complex and have become more stringent over time. Regulatory changes could result in restrictions on our ability to continue or expand our operations, higher than anticipated costs, or lower than anticipated sales. Even after we have obtained the proper regulatory clearance or approval to market a product, we have ongoing responsibilities under FDA regulations and applicable foreign laws and regulations. The FDA's and other regulatory authorities' policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. For example, in December 2016, the 21st Century Cures Act, or Cures Act, was signed into law. The Cures Act, among other things, is intended to modernize the regulation of devices and spur innovation, but its ultimate implementation is unclear. The FDA, state and foreign regulatory authorities have broad enforcement powers. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may be subject to enforcement action by the FDA, state or foreign regulatory authorities, which may include any of the following sanctions:

- untitled letters or warning letters;
- fines, injunctions, consent decrees and civil penalties;
- recalls, termination of distribution, administrative detention, or seizure of our products;
- customer notifications or repair, replacement or refunds;
- operating restrictions or partial suspension or total shutdown of production;
- delays in or refusal to grant our requests for future 510(k) clearances, PMA approvals or foreign regulatory approvals of new products, new intended uses, or modifications to existing products;
- withdrawals or suspensions of current 510(k) clearances or PMAs or foreign regulatory approvals, resulting in prohibitions on sales of our products;
- FDA refusal to issue certificates to foreign governments needed to export products for sale in other countries; and/ or
- criminal prosecution.

Any of these sanctions could result in higher than anticipated costs or lower than anticipated sales and have a material adverse effect on our reputation, business, results of operations and financial condition.

We also cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative or executive action, either in the United States or abroad. For example, certain policies of the new Presidential administration may impact our business and industry. Namely, the new Presidential administration has taken several executive actions, including the issuance of a number of Executive Orders, that could impose significant burdens on, or otherwise materially delay, FDA's ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance, and review and approval of marketing applications. Notably, on January 23, 2017, the new Presidential administration ordered a hiring freeze for all executive departments and agencies, including the FDA, which prohibits the FDA from filling employee vacancies or creating new positions. Under the terms of the order, the freeze will remain in effect until implementation of a plan to be recommended by the Director for the Office of Management and Budget, or OMB, in consultation with the Director of the Office of Personnel Management, to reduce the size of the federal workforce through attrition. An under-staffed FDA could result in delays in FDA's responsiveness or in its ability to review submissions or applications, issue regulations or guidance, or implement or enforce regulatory requirements in a timely fashion or at all. Moreover, on January 30, 2017, the new Presidential administration issued an Executive Order, applicable to all executive agencies, including the FDA, that requires that for each notice of proposed rulemaking or final regulation to be issued in fiscal year 2017, the agency shall identify at least two existing regulations to be repealed, unless prohibited by law. These requirements are referred to as the "two-for-one" provisions. This Executive Order includes a budget neutrality provision that requires the total incremental cost of all new regulations in the 2017 fiscal year, including repealed regulations, to be no greater than zero, except in limited circumstances. For fiscal years 2018 and beyond, the Executive Order requires agencies to identify regulations to offset any incremental cost of a new regulation and approximate the total costs or savings associated with each new regulation or repealed regulation. In interim guidance issued by the Office of Information and Regulatory Affairs within OMB on February 2, 2017, the administration indicates that the "two-for-one" provisions may apply not only to agency regulations, but also to significant agency guidance documents. In addition, on February 24, 2017, the new Presidential administration issued

an executive order directing each affected agency to designate an agency official as a “Regulatory Reform Officer” and establish a “Regulatory Reform Task Force” to implement the two-for-one provisions and other previously issued executive orders relating to the review of federal regulations, however it is difficult to predict how these requirements will be implemented, and the extent to which they will impact the FDA’s ability to exercise its regulatory authority. If these executive actions impose constraints on FDA’s ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

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

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

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

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

- properly identify and anticipate surgeon and patient needs;
- develop new products or enhancements in a timely manner;
- obtain the necessary regulatory approvals for new products or product enhancements;
- provide adequate training to potential users of new products;
- receive adequate reimbursement approval of third-party payors such as Medicaid, Medicare and private insurers; and
- develop an effective marketing and distribution network.

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

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

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

management team, including in the roles of Chief Executive Officer, Chief Financial Officer, Executive Vice President, People & Culture, and General Counsel, which could have an adverse effect on our retention of our employees, advisors and distributors. Changes to our senior management team, sales and marketing team, engineering team and key surgeon advisors, or our inability to attract or retain other qualified personnel or advisors, could have a significant adverse effect on our business, financial conditions and results of operations.

Compliance with laws and regulations and standards for accounting, corporate governance and public disclosure is time consuming and results in significant expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, The Dodd-Frank Wall Street Reform and Consumer Protection Act, other SEC regulations, NASDAQ Stock Market listing rules, and new accounting pronouncements create uncertainty and additional complexities for companies such as ours. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover these rules and regulations increase our legal and financial compliance costs and make some activities more time consuming and costly.

If we fail to maintain effective internal controls and procedures for financial reporting, we could be unable to provide timely and accurate financial information and therefore be subject to delisting from The NASDAQ Global Select Market, an investigation by the SEC, and civil or criminal sanctions. Additionally, ineffective internal control over financial reporting would place us at increased risk of fraud or misuse of corporate assets and could cause our stockholders, lenders, suppliers and others to lose confidence in the accuracy or completeness of our financial reports. This, in turn could adversely affect our ability to access the capital markets.

Security breaches, loss of data and other disruptions could compromise sensitive information related to our business, prevent us from accessing critical information or expose us to liability, which could adversely affect our business and our reputation.

In the ordinary course of our business, we collect and store sensitive data, including legally protected patient health information, credit card information, personally identifiable information about our employees, intellectual property, and proprietary business information. We manage and maintain our applications and data utilizing on-site systems. These applications and data encompass a wide variety of business critical information including research and development information, commercial information and business and financial information.

The secure processing, storage, maintenance and transmission of this critical information is vital to our operations and business strategy, and we devote significant resources to protecting such information. Although we take measures to protect sensitive information from unauthorized access or disclosure, our information technology and infrastructure may be vulnerable to attacks by hackers, viruses, breaches or interruptions due to employee error or malfeasance, terrorist attacks, earthquakes, fire, flood, other natural disasters, power loss, computer systems failure, data network failure, Internet failure, or lapses in compliance with privacy and security mandates. Any such attack, virus, breach or interruption could compromise our networks and the information stored there could be accessed by unauthorized parties, publicly disclosed, lost or stolen. We have measures in place that are designed to detect and respond to such security incidents and breaches of privacy and security mandates. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, such as HIPAA, government enforcement actions and regulatory penalties. Unauthorized access, loss or dissemination could also interrupt our operations, including our ability to bill our customers, provide customer support services, conduct research and development activities, process and prepare company financial information, manage various general and administrative aspects of our business and damage our reputation, any of which could adversely affect our business.

Nearly all of our operations are currently conducted in locations that may be at risk of damage from fire, earthquakes or other natural disasters.

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

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

As a holding company with no business operations, Alphatec Holdings' material assets consist only of the common stock of its subsidiaries, dividends and other payments received from time to time from its subsidiaries, and the proceeds raised from the sale of debt and equity securities. Alphatec Holdings' subsidiaries are legally distinct from Alphatec Holdings and have no obligation, contingent or otherwise, to make funds available to Alphatec Holdings. Alphatec Holdings will have to rely upon dividends and other payments from its subsidiaries to generate the funds necessary to fulfill its cash obligations. Alphatec Holdings may not be able to access cash generated by its subsidiaries in order to fulfill cash commitments. The ability of Alphatec Spine to make dividend and other payments to Alphatec Holdings is subject to the availability of funds after taking into account its subsidiaries' funding requirements, the terms of its subsidiaries' indebtedness and applicable state laws.

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

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

#### Risks Related to Our Financial Results, Credit and Certain Financial Obligations and Need for Financing

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

At December 31, 2017, our principal sources of liquidity consisted of cash of \$22.5 million and accounts receivable, net of \$14.8 million. Together with the proceeds of our \$45.2 million private placement and up to \$4.8 million warrant financing in March 2018, we currently estimate this will provide sufficient capital to fund our operations through at least the next 12 months.

We may seek additional funds from public and private equity or debt financings, borrowings under new debt facilities or other sources to fund our projected operating requirements. Our capital requirements will depend on many factors, including:

- the payments due in connection with the settlement of the Orthotec matter;
- the revenues generated by sales of our products;
- the costs associated with expanding our sales and marketing efforts;

- the expenses that we incur from the manufacture of our products by third parties and that we incur from selling our products;
- the costs of developing new products or technologies;
- the cost of obtaining and maintaining FDA or other regulatory approval or clearance for our products and products in development;
- the cost of filing and prosecuting patent applications and defending and enforcing our patent and other intellectual property rights;
- the number and timing of acquisitions and other strategic transactions;
- the costs and any payments we may make related to our pending litigation matters;

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- the costs associated with increased capital expenditures; and
- the costs associated with our employee retention programs and related benefits.

As a result of these factors, we may need to raise additional funds and such funds may not be available on favorable terms, if at all. However, under the securities purchase agreement we entered into in connection with March 2018 private placement, we are prohibited from issuing or entering into any agreement to issue any shares of our common stock or other securities, subject to certain permitted exceptions, until the later of (a) 90 days after the effective date of the resale registration statement we are required to file registering the resale of the shares of common stock issued or issuable in the private placement or (b) the date of stockholder approval of the March 2017 private placement. In addition, rules and regulations of the SEC may restrict our ability to conduct certain types of financing activities, or may affect the timing of and the amounts we can raise by undertaking such activities. For example, under current SEC regulations, at any time during which the aggregate market value of our common stock held by non-affiliates, or our public float, is less than \$75 million, the amount that we can raise through primary public offerings of securities in any twelve-month period using one or more registration statements on Form S-3 will be limited to an aggregate of one-third of our public float. As of March 2, 2018, our public float was \$41 million.

In addition, pursuant to the resale registration statement we filed and plan to file in connection with our private placement in March 2018 private placement, and our acquisition of SafeOp, the issuance of additional shares will result in dilution to our existing stockholders.

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

If we default on our obligations to make settlement payments to Orthotec LLC, the amounts due under the settlement agreements accelerate and become due and payable.

Any default of our payment obligation under the settlement agreements we entered into with Orthotec LLC, or Orthotec, would give Orthotec the right to declare all of the future payments to be immediately payable. As of March 2, 2018, the outstanding amount to be paid to Orthotec through January 2024 including future interest was \$24.9 million. If acceleration of payments occurs, our business, financial condition and results of operations could be materially and adversely affected.

We have a history of net losses, we expect to continue to incur net losses in the near future, and we may not achieve or maintain profitability.

We have typically incurred net losses from our continuing operations since our inception. As of December 31, 2017, we had an accumulated deficit of \$459.5 million. We have incurred significant net losses since inception and have relied on our ability to fund our operations through revenues from the sale of our products, equity financings and debt financings. As we have incurred losses, successful transition to profitability is dependent upon achieving a level of

revenues adequate to support our cost structure. This may not occur and, unless and until it does, we will continue to need to raise additional capital. We may seek additional funds from public and private equity or debt financings, borrowings under new debt facilities or other sources to fund our projected operating requirements. However, there is no guarantee that we will be able to obtain further financing, or do so on reasonable terms. If we are unable to raise additional funds on a timely basis, or at all, we would be materially adversely affected.

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 and affirmative and negative covenants under the Globus Facility Agreement. We failed to comply with the fixed charge coverage ratio for January and June 2016, the fixed charge coverage ratio, senior leverage ratio and total leverage ratio covenants for March 2016, and the fixed charge coverage ratio and total leverage ratio covenants for April and May 2016, under our Amended Credit Facility. We also did not meet a minimum requirement for the percentage of our total cash held in U.S. accounts for January, February, March, April, May and June 2016. MidCap and Deerfield, pursuant to the Deerfield Facility Agreement which has been terminated, provided waivers with respect to our non-compliance during such periods. There can be no assurance that at all times in the future we will satisfy all such financial or other covenants of the Amended Credit Facility or the Globus Facility Agreement, or obtain any required waiver or amendment, in which event of default the lenders party to the Amended Credit Facility could refuse to make further extensions of credit to us and MidCap and/or Globus could require all amounts borrowed under the Amended Credit Facility and/or the Globus 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 Amended Credit Facility or Globus Facility Agreement, 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 Amended Credit Facility or the Globus Facility Agreement could have a material adverse effect on us. Upon an event of default, if the lenders under the Amended Credit Facility or Globus Facility Agreement 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 Amended Credit Facility or the Globus 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 Amended Credit Facility or the Globus Facility Agreement or upon the occurrence of another event of default, the lenders under the Amended Credit Facility or the Globus Facility Agreement could proceed against the collateral granted to them pursuant to the MidCap Amended Credit Facility and the Globus Facility Agreement. We have granted to the lenders under the 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 Amended Credit Facility. We have granted Globus under the Globus Facility Agreement a first lien security interest in substantially all of our assets, other than accounts receivable and related assets, which will secure the Globus Facility Agreement on a second lien basis. If Globus proceeds 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.

Our quarterly financial results could fluctuate significantly.

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

- acceptance of our products by surgeons, patients, hospitals and third-party payors;
- demand and pricing of our products;
- the mix of our products sold, because profit margins differ among our products;
- timing of new product offerings, acquisitions, licenses or other significant events by us or our competitors;
- our ability to grow and maintain a productive sales and marketing organization and independent distributor network;
- regulatory approvals and legislative changes affecting the products we may offer or those of our competitors;
- the effect of competing technological and market developments;

• levels of third-party reimbursement for our products;  
• interruption in the manufacturing or distribution of our products;  
• our ability to produce or obtain products of satisfactory quality or in sufficient quantities to meet demand; and  
• changes in our ability to obtain FDA, state and international approval or clearance for our products.

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

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

#### Risks Related to Our Intellectual Property Regulatory Penalties and Litigation

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

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

Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Competitors may be able to design around our patents or develop products that provide outcomes that are comparable to our products but fall outside of the scope of our patent protection. Although we have entered into confidentiality agreements and intellectual property assignment agreements with certain of our employees, consultants and advisors as one of the ways we seek to protect our intellectual property and other proprietary technology, such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. In the event a competitor infringes upon one of our patents or other intellectual property rights, enforcing those patents and rights may be difficult and time consuming. Even if successful, litigation to defend our patents against challenges or to enforce our intellectual property rights could be expensive and time consuming and could divert management's attention from managing our business. Moreover, we may not have sufficient resources to defend our patents against challenges or to enforce our intellectual property rights.

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

The medical device industry is characterized by extensive litigation and administrative proceedings over patent and other intellectual property rights. Determining whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Our competitors may assert that our products, the components of

those products, the methods of using those products, or the methods we employ in manufacturing or processing those products are covered by patents held by them. In addition, they may claim that their patents have priority over ours because their patents were filed first. Because patent applications can take many years to issue, there may be applications now pending of which we are unaware, which may later result in issued patents that our products may infringe. There could also be existing patents that one or more components of our products may be inadvertently infringing, of which we are unaware. As the number of participants in the market for spine disorder devices and treatments increases, the possibility of patent infringement claims against us also increases.

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

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

We are currently involved in a patent litigation action involving NuVasive, Inc. and, if we do not prevail in this action, we could be liable for past damages and might be prevented from making, using, selling, offering to sell, importing or exporting certain of our products.

On February 15, 2018, NuVasive, Inc. (Nuvasive) filed suit against us in the United States District Court for the Southern District of California, alleging that certain of our products infringe, or contribute to the infringement of, U.S. patents owned by NuVasive. NuVasive is a large, publicly-traded corporation with significantly greater financial resources than us.

Intellectual property litigation is expensive, complex and lengthy and its outcome is difficult to predict. We may also be subject to negative publicity due to the litigation. Pending or future patent litigation against us or any strategic partners or licensees may force us or any strategic partners or licensees to stop or delay developing, manufacturing or selling potential products that are claimed to infringe a third party's intellectual property, unless that party grants us or any strategic partners or licensees rights to use its intellectual property, and may significantly divert the attention of our technical and management personnel. In the event that our right to market any of our products is successfully challenged, and if we fail to obtain a required license or are unable to design around a patent, our business, financial condition or results of operations could be materially adversely affected. In such cases, we may be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all and any licenses may require substantial royalties or other payments by us. Even if any strategic partners, licensees or we were able to obtain rights to the third party's intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Furthermore, if we are found to infringe patent claims of a third party, we may, among other things, be required to pay damages, including up to treble damages and attorney's fees and costs, which may be substantial.

An unfavorable outcome for us in this patent litigation could significantly harm our business if such outcome makes us unable to commercialize some of our current or potential products or cease some of our business operations. In addition, costs of defense and any damages resulting from the litigation may materially adversely affect our business

and financial results. The litigation may also harm our relationships with existing customers and subject us to negative publicity, each of which could harm our business and financial results.

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

Our business exposes us to potential product liability claims that are inherent in the testing, design, manufacture and sale of medical devices for spine surgery procedures. Spine surgery involves significant risk of serious complications, including bleeding, nerve injury, paralysis and even death. To date, our products have not been the subject of any material product liability claims. Currently, we carry product liability insurance in the amount of \$20 million per occurrence and \$20 million in the aggregate. Our existing product liability insurance coverage may be inadequate to satisfy liabilities we might incur. Any product liability claim brought against us, with or without merit, could result in the increase of our product liability insurance rates or our inability to secure coverage in the future on commercially reasonable terms, if at all. In addition, if our product liability insurance proves to be inadequate to pay a damage award, we may have to pay the excess out of our cash reserves, which could harm our financial condition. If longer-term patient results and experience indicate that our products or any component of our products cause tissue damage, motor impairment or other adverse effects, we could be subject to significant liability. Even a meritless or unsuccessful product liability claim could harm our reputation in the industry, lead to significant legal fees and result in the diversion of management's attention from managing our business. If a product liability claim or series of claims is brought against us in excess of our insurance coverage limits, our business could suffer and our financial condition, results of operations and cash flow could be materially adversely impacted.

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

Our biologics products may expose us to additional potential product liability claims. The development of biologics products entails a risk of additional product liability claims because of the risk of transmitting disease to human recipients, and substantial product liability claims may be asserted against us. In addition, successful product liability claims made against one of our competitors could cause claims to be made against us or expose us to a perception that we are vulnerable to similar claims. Even a meritless or



unsuccessful product liability claim could harm our reputation in the industry, lead to significant legal fees and result in the diversion of management's attention from managing our business.

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

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

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

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

#### Risks Related to Our Acquisition of SafeOp Surgical, Inc.

Uncertainty about our acquisition of SafeOp may adversely affect relationships with our customers, suppliers and employees, whether or not the transaction is completed.

In response to the announcement of our acquisition of SafeOp, Alphatec's and/or SafeOp's existing or prospective customers or suppliers may:

- delay, defer or cease purchasing products or services from us or the combined company, or providing products or services to us or the combined company;

delay or defer other decisions concerning us or the combined company; or  
otherwise seek to change the terms on which they do business with us or the combined company.

Any such delays or changes to terms could materially harm our business or the combined business. In addition, as a result of the acquisition of SafeOp, the employees acquired from SafeOp could experience uncertainty about their future with us. As a result, key employees may depart because of issues relating to such uncertainties, or a desire not to remain with us following the acquisition of SafeOp. Losses of customers, employees or other important strategic relationships could have a material adverse effect on our business, operating results, and financial condition.

We may incur substantial expenses related to the integration of SafeOp.

We may incur substantial expenses in connection with the integration of the business, policies, procedures, operations, technologies and systems of SafeOp. There are a large number of systems and functions that must be integrated, including, but not limited to, management information, accounting and finance, billing, payroll and benefits and regulatory compliance. Mergers are particularly challenging because their prior practices may not meet the requirements of the Sarbanes-Oxley Act, the Dodd-Frank Act and/or generally accepted public accounting standards. While we have assumed that a certain level of expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of all of the expected integration

expenses. Moreover, many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time.

We may be unable to successfully integrate our business with the business of SafeOp and realize the anticipated benefits of the acquisition.

The acquisition of SafeOp involves the combination of the businesses of two companies that currently operate as independent companies. Our management has limited integration experience and will be required to devote significant attention and resources to integrating our business practices and operations with those of SafeOp. Potential difficulties we may encounter as part of the integration process include, but are not limited to, the following:

- inability to successfully combine our business with the business of SafeOp in a manner that permits us to achieve the full synergies anticipated from the Merger;
- complexities associated with managing our business and the business of SafeOp following the acquisition, including the challenge of integrating complex systems, technology, networks and other assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;
- integrating the workforces of the two companies while maintaining focus on providing consistent, high quality customer service; and
- potential unknown liabilities and unforeseen increased expenses or delays associated with the acquisition, including costs to integrate the two companies that may exceed anticipated costs.

Any of the potential difficulties listed above could adversely affect our ability to maintain relationships with customers, suppliers, employees, lenders and other constituencies or our ability to achieve the anticipated benefits of the acquisition of SafeOp or otherwise adversely affect our business and financial results following completion of the acquisition.

Our actual financial and operating results after our acquisition of SafeOp could differ materially from any expectations or guidance provided by us concerning future results, including (without limitation) expectations or guidance with respect to the financial impact of any cost savings and other potential synergies.

We currently expect to realize an increase in sales and other synergies as a result of the acquisition. These expectations are subject to numerous assumptions, however, including assumptions derived from our diligence efforts concerning the status of and prospects for SafeOp's business, which we do not currently control, and assumptions relating to the near-term prospects for our industry generally and the markets for SafeOp's products in particular. Additional assumptions that we have made include, without limitation, the following:

- projections of SafeOp's future revenues;
- anticipated financial performance of SafeOp's products and products currently in development;
- anticipated cost savings and other synergies associated with the Merger, including potential revenue synergies;
- our expected capital structure after the Merger;
- amount of goodwill and intangibles that will result from the acquisition;
- certain other purchase accounting adjustments that we expect to record in our financial statements in connection with the acquisition;
- transaction costs, including those payable to our financial, legal and accounting advisors;
- our ability to maintain, develop and deepen relationships with SafeOp's customers; and
- other financial and strategic risks of the acquisition.

We cannot provide any assurances with respect to the accuracy of our assumptions, including our assumptions with respect to future revenues or revenue growth rates, if any, of SafeOp, and we cannot provide assurances with respect to our ability to realize any cost savings that we currently anticipate. Risks and uncertainties that could cause our actual results to differ materially from currently anticipated results include, but are not limited to, risks relating to our ability to integrate SafeOp successfully; currently unanticipated incremental costs that we may incur in connection with integrating the two companies; risks relating to our ability to realize incremental revenues from our acquisition of

SafeOp in the amounts that we currently anticipate; risks relating to the willingness of SafeOp's customers and other partners to continue to conduct business with us following the acquisition; and numerous risks and uncertainties that affect our industry generally and the markets for our products and those of SafeOp, specifically. Any failure to integrate SafeOp successfully and to realize the financial benefits we currently anticipate from the acquisition would have a material

adverse impact on our future operating results and financial condition and could materially and adversely affect the trading price or trading volume of our common stock.

The combined businesses may not perform as we expect, or as the market expects, which could have an adverse effect on the price of our Common Stock.

Risks associated with the combined company following our acquisition of SafeOp include:

Integrating businesses is a difficult, expensive, and time-consuming process, and the failure to integrate successfully our business with the businesses of SafeOp in the expected time frame would adversely affect our financial condition and results of operations;

- the acquisition will significantly increase the size of our operations, and if we are not able to effectively manage our expanded operations, our stock price may be adversely affected;

It is possible that key employees of SafeOp might decide not to remain with us after the acquisition, and the loss of such personnel could have a material adverse effect on the financial condition, results of operations and growth prospects of Alphatec;

The current sales rates of SafeOp as combined with Alphatec may dilute the observed growth rates of Alphatec;

The success of Alphatec following the Closing will also depend upon relationships with third parties and pre-existing customers of us and SafeOp, which relationships may be affected by customer preferences or public attitudes about the acquisition. Any adverse changes in these relationships could adversely affect our business, financial condition and results of operations; and

The price of our common stock after the acquisition may be affected by factors different from those currently affecting the price of our common stock.

If any of these events were to occur, the price of our common stock could be adversely affected.

#### Risks Related to Our Common Stock

If we fail to continue to meet all applicable NASDAQ Global Select Market requirements and our common stock is delisted, the delisting could adversely affect the market liquidity of our common stock, impair the value of your investment and harm our business.

Our common stock is currently listed on the NASDAQ Global Select Market. In order to maintain that listing, we must satisfy minimum financial and other requirements. Although we are currently in compliance with applicable NASDAQ Global Select Market requirements, if we fail to continue to meet all such requirements in the future and NASDAQ determines to delist our common stock, the delisting could substantially decrease trading in our common stock and adversely affect the market liquidity of our common stock; adversely affect our ability to obtain financing on acceptable terms, if at all, to continue our operations; and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities. Additionally, the market price of our common stock may decline further and stockholders may lose some or all of their investment.

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

The market price of our common stock is likely to be highly volatile and may fluctuate substantially due to many factors, including those described elsewhere in this “Risk Factors” section and the following:

- volume and timing of orders for our products;
- quarterly variations in our or our competitors’ results of operations;
- our announcement or our competitors’ announcements regarding new products, product enhancements, significant contracts, number of distributors, number of hospitals and surgeons using products, acquisitions, and collaborative or strategic investments;

announcements of technological or medical innovations for the treatment of spine pathology;  
changes in earnings estimates or recommendations by securities analysts;  
our ability to develop, obtain regulatory clearance or approval for, and market new and enhanced products on a timely basis;

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changes in healthcare policy in the U.S.;

- product liability claims or other litigation involving us;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
  - changes in governmental regulations or in the status of our regulatory approvals, clearances or applications;
- disputes or other developments with respect to intellectual property rights;
- changes in the availability of third-party reimbursement in the U.S.;
- changes in accounting principles; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

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

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

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

Securities analysts may not continue to provide research coverage of our common stock. If securities analysts do not cover our common stock, the lack of research coverage may cause the market price of our common stock to decline. The trading market for our common stock may be affected in part by the research and reports that industry or financial analysts publish about our business. If one or more of the analysts who elects to cover us downgrades our stock, our stock price would likely decline rapidly. If one or more of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our stock price to decline. In addition, it may be difficult for companies such as ours, with smaller market capitalizations, to attract independent financial analysts that will cover our common stock. This could have a negative effect on the market price of our stock.

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

Based on shares outstanding at March 2, 2018, our executive officers, directors and stockholders holding more than 5% of our outstanding common stock and their affiliates, in the aggregate, beneficially own approximately 36% of our outstanding common stock. As a result, these persons will have the ability to impact significantly the outcome of all matters requiring stockholder approval, including the election and removal of directors and any merger, consolidation, or sale of all or substantially all of our assets.

This concentration of ownership may harm the market price of our common stock by, among other things:

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

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

Two members of our Board of Directors also serve as officers and directors of our largest stockholder, HealthpointCapital, or its related entities and of other companies in which HealthpointCapital invests, including companies with which we compete or may in the future compete. As of March 2, 2018, HealthpointCapital owned approximately 13% of our outstanding common stock. Our Lead Director, Mortimer Berkowitz III, is a managing member of HGP, LLC and HGP II, LLC, the general partners of HealthpointCapital



Partners, LP and HealthpointCapital Partners II, LP, respectively. Director R. Ian Molson also serves on the board of managers of HealthpointCapital, LLC. Each of Messrs. Berkowitz and Molson also have financial interests in HealthpointCapital investment funds.

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

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

Certain provisions of our amended and restated certificate of incorporation and restated by-laws could discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which our stockholders might otherwise receive a premium for their shares. These provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. Stockholders who wish to participate in these transactions may not have the opportunity to do so. Furthermore, these provisions could prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions:

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

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

In addition, in the event of a change of control, we would be required to redeem all outstanding shares of our redeemable preferred stock for an aggregate of \$29.9 million, at the price of \$9.00 per share. Further, our amended

and restated certificate of incorporation permits us to issue additional shares of preferred stock. The terms of our redeemable preferred stock or any new preferred stock we may issue could have the effect of delaying, deterring or preventing a change in control.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (“Section 382”), if a corporation undergoes an “ownership change,” generally defined as a cumulative change in its equity ownership by “5-percent shareholders” of greater than 50 percentage points (by value) over a three-year period, the corporation’s ability to use its pre-change net operating loss carryforwards, or NOLs, and certain other pre-change tax attributes (such as research tax credits) to offset its post-change taxable income and taxes,

as applicable, may be limited. We have completed multiple rounds of financing and entered into transactions which may have resulted in an ownership change or could result in an ownership change in the future. We have not completed an analysis of our equity shifts which occurred during 2017 (and the period prior to the issuance of our 2017 annual report) pursuant to Section 382. Therefore, it is possible that we have experienced an ownership change pursuant to Section 382. We may also experience ownership changes in the future as a result of subsequent shifts in our stock ownership. As a result, our ability to use our NOLs and research and development credit carryforwards to offset our U.S. federal taxable income and taxes, as applicable, may be subject to limitations, which could potentially result in increased future tax liability to us. In addition, at the state level, similar rules may apply and there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

We could be subject to changes in our tax rates, new tax legislation or additional tax liabilities.

The U.S. government has recently enacted comprehensive tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (i) a permanent reduction to the corporate income tax rate, (ii) a partial limitation on the deductibility of business interest expense, (iii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (iv) a one-time tax on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a lower rate. The overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law.

Our tax returns and other tax matters also are subject to examination by the U.S. Internal Revenue Service and other tax authorities and governmental bodies. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of our provision for taxes. We cannot guarantee the outcome of these examinations. If our effective tax rates were to increase, particularly in the United States, or if the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, our financial condition, operating results and cash flows could be adversely affected.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and, in particular, the description of our "Business" set forth in Item 1, the "Risk Factors" set forth in this Item 1A and our "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in Item 7 contain or incorporate a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, 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 meet the financial covenants under our credit facilities;
- our ability to ensure that we have effective disclosure controls and procedures;
- our not realizing the full economic benefit from the Globus Transaction, including as a result of indemnification claims under the definitive agreement and the retention by us of certain liabilities associated with the international business, and our ability to meet our obligations under the Globus supply agreement;
- our ability to meet and potential liability from not meeting the payment obligations under the Orthotec settlement agreement;
- our ability to regain and maintain compliance with the quality requirements of the FDA;

- 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;
- our beliefs about the features, strengths and benefits of our products;
- our ability to continue to enhance our product offerings, outsource our manufacturing operations and expand the commercialization of our products, and the effect of our strategy;
- our expectations about the timing, costs and benefits of the restructuring and outsourcing of our manufacturing operations;
- our beliefs about the ability of our supplier relationships and quality processes to fulfill our production requirements;
- our ability to successfully integrate, and realize benefits from licenses and acquisitions;

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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;
- 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. distribution network;
- our ability to increase the use and promotion of our products by training and educating surgeons and our sales network;
- 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;
- 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 healthcare industry and our business;
- our ability to meet or exceed the industry standard in clinical and legal compliance and corporate governance programs;
- our beliefs about our competitors and the principal competitive factors in our market and the effect of non-operative treatments on demand for our products;
- potential liability resulting from litigation;
- our beliefs about our employee relations;
- 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 Annual Report on Form 10-K;
- our beliefs with respect to our critical accounting policies and the reasonableness of our estimates and assumptions;
- and
- other factors discussed elsewhere in this Annual Report on Form 10-K or any document incorporated by reference herein or therein.

Any or all of our forward-looking statements in this Annual Report may turn out to be wrong. They can be affected by inaccurate assumptions by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Annual Report on Form 10-K 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 Item 1A of this Annual Report. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed there could also adversely affect us.

Without limiting the foregoing, the words "believe," "anticipate," "plan," "expect," "may," "could," "would," "seek," "intend," 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 "Item 1A Risk Factors." In addition, the forward-looking statements contained herein represent our estimate only as of the date of this filing and should not be relied upon as representing our estimate as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements, except as required by applicable law.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Our corporate office is located in Carlsbad, California. The table below provides selected information regarding our current material operating location.

Location	Use	Footage	Lease Expiration
Carlsbad, California	Corporate headquarters and product design	76,693	July 2021

Approximate

Square

## Item 3. Legal Proceedings

We are and may become involved in various legal proceedings arising from our business activities. While the Company has no material accruals for pending litigation or claims for which accrual amounts are not disclosed in the Company's consolidated financial statements, litigation is inherently unpredictable, and depending on the nature and timing of a proceeding, 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.

On February 13, 2018, NuVasive, Inc. filed suit against us in the United States District Court for the Southern District of California, alleging that certain of our products (including components of the Squadron™ Lateral Retractor, the Battalion™ Lateral Spacer and other components of the Battalion™ Lateral System), infringe, or contribute to the infringement of, U.S. Patent Nos. 7,819,801, 8,355,780, 8,439,832, 8,753,270, 9,833,227 (entitled "Surgical access system and related methods"), U.S. Patent No. 8,361,156 (entitled "Systems and methods for spinal fusion"), and U.S. Design Patent Nos. D652,519 ("Dilator") and D750,252 ("Intervertebral implant") (collectively, the "NuVasive Patents"). NuVasive is seeking unspecified monetary damages and a court injunction against future infringement by us. We intend to vigorously defend ourselves in this matter, beginning by answering the complaint, denying the allegations and filing counterclaims seeking dismissal of NuVasive's complaint and a declaration that we have not infringed and currently do not infringe any valid claim of the NuVasive Patents. In addition, we may also seek the following relief: (i) a declaration that the NuVasive Patents are invalid; (ii) a permanent injunction against NuVasive charging that we have infringed or are infringing the NuVasive Patents; and (iii) costs and reasonable attorneys' fees. The case is in the very early stages of proceedings, with an order establishing a schedule for the case expected within the next few months. As of the date of this Annual Report on Form 10-K, the probability of an outcome cannot be reasonably determined, nor can the Company reasonably estimate a potential loss; therefore, in accordance with Accounting Standards Codification 450, Contingencies, the Company has not recorded an accrual related to this

litigation.

Item 4. Mine Safety Disclosures  
Not applicable.

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## PART II

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

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

On August 24, 2016, we effected a 1-for-12 reverse stock split of our issued and outstanding common stock. The per-share amounts listed in the table below are adjusted for all periods to reflect our 1-for-12 reverse stock split.

Year Ended December 31, 2016	High	Low
First quarter	\$6.96	\$1.80
Second quarter	4.56	2.16
Third quarter	9.65	2.64
Fourth quarter	9.27	3.12

Year Ended December 31, 2017	High	Low
First quarter	\$5.80	\$1.96
Second quarter	2.49	1.77
Third quarter	2.45	1.58
Fourth quarter	4.27	2.25

## Stockholders

As of March 5, 2018, there were approximately 325 holders of record of an aggregate 20,239,812 outstanding shares of our common stock.

## Dividend Policy

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, our ability to pay dividends is currently restricted by the terms of the Amended Credit Facility with MidCap and the Globus Facility Agreement.

## Issuer Purchases of Equity Securities

Under the terms of our 2016 Equity Incentive Plan and our Amended and Restated 2005 Employee, Director and Consultant Stock Plan, as amended, which we refer to collectively as the Stock Plans, and prior to the expiration of the Stock Plans in May 2026, we are permitted to award shares of restricted stock to our employees, directors and consultants. These shares of restricted stock are subject to a lapsing right of repurchase by us. We may exercise this right of repurchase in the event that a restricted stock recipient’s employment, directorship or consulting relationship with us terminates prior to the end of the vesting period. If we exercise this right, we are required to repay the purchase price paid by or on behalf of the recipient for the repurchased restricted shares. Repurchased shares are returned to the Stock Plan and are available for future awards under the terms of the Stock Plan. There were no shares



of common stock repurchased during the year ended December 31, 2017 or 2016.

Item 6. Selected Financial Data

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements appearing elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this report include the identification of certain trends and other statements that may predict or anticipate future business or financial results that are subject to important factors that could cause our actual results to differ materially from those indicated. See "Item 1A Risk Factors" included elsewhere in this Annual Report on Form 10-K.

### Overview

We are a medical technology company focused on the design, development, and advancement of products for better surgical treatment of spinal disorders. Our mission is to become the most respected, fastest growing U.S. spine company, by providing innovative, spine surgery solutions through our relentless pursuit of superior outcomes. We have a broad product portfolio capable of addressing the majority of U.S. market for fusion-based spinal disorder solutions. We intend to drive growth by exploiting our unmatched collective spine experience and investing in the research and development to continually differentiate our solutions and improve spine surgery. We believe our future success will be fueled by introducing market-shifting innovation to the spine market, and we believe that we are exceptionally well-positioned to capitalize on current spine market dynamics.

We market and sell our products in the U.S. through a network of independent distributors and direct sales representatives. An objective of our new leadership team is to deliver increasingly consistent, predictable growth. To accomplish this, we are partnering more closely with our distributors to create a more dedicated and loyal sales channel for the future. We are eliminating stocking distributors and transitioning preexisting distributor relationships to more dedicated, non-competitive partnerships. We are also adding new, high-quality dedicated distributors to expand future growth. We believe this will allow us to reach an untapped market of surgeons, hospitals, and national accounts across the U.S., as well as better penetrate existing accounts and territories.

We made significant progress in the transition of our distribution channel in 2017, driving the percent of sales contributed by dedicated agents and distributors from less than 10% in the fourth quarter of 2016 to over 40% in the fourth quarter of 2017. Going forward, we intend to continue to relentlessly drive toward a fully exclusive network of independent and direct sales agents. Recent consolidation in the industry is facilitating the process, as large, seasoned distributors are seeking opportunities to re-enter the spine market by partnering with spine-focused companies that have broad, growing product portfolios.

Between late 2016 and today, we have assembled a spine-experienced team that we believe can execute our vision for long-term growth, including the recent appointments of Patrick Miles as our Chairman and Chief Executive Officer; Dr. Luiz Pimenta as our Chief Medical Officer; Lance DeNardin as Area Vice President, West; Michael Dendinger as Vice President of Operations; Scott Lish as Vice President of Development; Dr. Richard O'Brien as Chief Medical Officer, SafeOp Surgical; Robert Snow as Chief Marketing Officer, SafeOp Surgical; Chris Brown as Vice President, Sales, SafeOp Surgical. Collectively, the Alphatec executive leadership team has over 150 years of combined spine-experience.

We have also reconstituted our Board of Directors since late 2016, adding significant spine industry and capital markets expertise.

### Recent Developments

On March 8, 2018, we announced the acquisition of SafeOp Surgical, Inc., or SafeOp. SafeOp was a privately-held provider of neuromonitoring technology designed to enable effective intra-operative nerve health assessment. With the full integration of SafeOp's technology, we expect to be able to introduce an unprecedented level of neuromonitoring and intraoperative nerve safety to the spine market in early 2019. SafeOp's patented technology has been designed to enable both nerve avoidance and nerve health assessment to prevent the risk of nerve injury that is widely associated with direct lateral spine fusion surgery.

On March 8, 2018, we completed a \$39.7 million first close of a \$45.2 million private placement of our securities to certain institutional and accredited investors, including certain directors and executive officers of the Company. The second close of the private placement is expected to occur within five business days. The private placement was led by L-5 Healthcare Partners, an institutional investor, and provides for the sale by the Company of approximately 14.3 shares of newly created Series B Convertible Preferred Stock, which are automatically convertible into approximately 14.3 million shares of common stock (representing a purchase price of \$3.15 per common share), upon approval by Alphatec's stockholders, as required in accordance with the NASDAQ Global Select Market rules. Purchasers also received warrants to purchase up to approximately 12.2 million shares of common stock at an exercise price of \$3.50 per share. In addition, the Company entered into an agreement with Armistice Capital, an existing investor, to exercise 2.4 million warrants to purchase common shares for gross proceeds of \$4.8 million in exchange for warrants to purchase up to 1,800,000 shares of common stock at an exercise price of \$3.50 per share. The new warrants will be exercisable following approval by Alphatec stockholders, and will expire 5 years from the date of such stockholder approval. Certain directors and

executive officers of Alphatec agreed to purchase an aggregate of \$6.4 million of shares of Series B Convertible Preferred Stock, which shares are convertible into approximately 2.1 million shares of common stock (representing a purchase price of \$3.15 per common share), and warrants to purchase up to 1.7 million shares of common stock at a price of \$3.50 per share. We paid \$15 million of the net proceeds from the private placement fund the cash purchase price for SafeOp, and will use the remaining net proceeds for working capital and general corporate purposes, including the integration of next-generation neuromonitoring solutions, advancement of our product pipeline, and investment in sales and marketing to expand our market presence.

#### Sale of International Business

On September 1, 2016, we completed the sale of our international distribution operations and agreements, including our wholly-owned subsidiaries in Japan, Brazil, Australia, China and Singapore and substantially all of the assets of our other sales operations in the United Kingdom and Italy, or collectively the International Business, to an affiliate of Globus (“Globus Transaction”). Following the closing of the Globus Transaction, we now operate in the U.S. market only and are prohibited from marketing and selling our products in foreign markets pursuant to the terms and conditions, and for the time periods, set forth in the definitive documents related to the Globus Transaction.

At the closing of the Globus Transaction on September 1, 2016, Globus paid us \$80 million in cash. On September 1, 2016, we used approximately \$66 million of the consideration received to (i) repay in full all amounts outstanding and due under the Deerfield Facility Agreement, and (ii) repay certain of our outstanding indebtedness under our Amended Credit Facility, in each case, including debt-related costs. Also on September 1, 2016, we entered into the credit, security and guaranty agreement with Globus, or the Globus Facility Agreement, pursuant to which Globus has agreed to loan us up to \$30 million, subject to the terms and conditions set forth in the Globus Facility Agreement.

On August 24, 2016, we filed a certificate of amendment to the Company’s certificate of incorporation with the Secretary of State of the state of Delaware to effectuate a 1-for-12 reverse stock split of our issued and outstanding common stock. The share and per share amounts in the discussion below gives retrospective effect to the 1-for-12 reverse stock split for all periods presented.

#### 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 pedicle screws and complementary implants, interbody devices, plates, and tissue-based 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. Currently, most of our business is conducted with customers within markets in which we have experience and with payment terms that are customary to our business. We may defer revenues until the time of collection if circumstances related to payment terms, regional market risk or customer history indicate that collectability is not reasonably assured.

**Cost of revenues.** Cost of revenues consists of direct product costs, royalties, milestones, depreciation of our surgical instruments, and the amortization of purchased intangibles. Our product costs consist primarily of direct labor, 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.** 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 in both cash and

equity, and costs associated with our Scientific Advisory Board and Executive Surgeon Panels.

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

Goodwill and intangible assets impairment. The impairment expense relates to impairment charges related to our goodwill balances and intangible assets.

Restructuring expenses. Restructuring expense consists of severance, social plan benefits and related taxes, facility closing costs, manufacturing transfer costs and severance costs incurred following the sale of our International Business and the termination of our manufacturing operations in California.

Total other income (expense). Total other income (expense) includes interest income, interest expense, changes in the fair value of the warrant liabilities, gains and losses from foreign currency exchanges and other non-operating gains and losses.

Income tax benefit. Income tax benefit from continuing operations primarily consists of reversal of an uncertain tax position reserve and the recognition of refundable federal minimum tax credits, partially offset by state taxes.

## Results of Operations

The first table below sets forth our statements of operations data for the periods presented. Our historical results are not necessarily indicative of the operating results that may be expected in the future.

	Year Ended	
	December 31,	
	2017	2016
	(in thousands)	
Revenues	\$101,739	\$120,248
Cost of revenues	39,406	44,114
Gross profit	62,333	76,134
Operating expenses:		
Research and development	4,920	9,248
Sales and marketing	41,158	50,962
General and administrative	23,220	26,339
Amortization of intangible assets	688	934
Impairment of intangible assets	—	1,736
Restructuring expenses	2,206	2,292
Gain on sale of assets	(856 )	—
Total operating expenses	71,336	91,511
Operating (loss) income	(9,003 )	(15,377 )
Other income (expense):		
Interest expense, net	(7,482 )	(5,365 )
Loss on debt extinguishment	—	(9,478 )
Gain (loss) on change in fair value of warrants	12,044	(687 )
Other expense, net	(133 )	(28 )
Total other income (expense)	4,429	(15,558 )
Pretax loss from continuing operations	(4,574 )	(30,935 )
Income tax benefit	(34 )	(4,634 )
Loss from continuing operations	(4,540 )	(26,301 )
Income (loss) from discontinued operations, net of taxes	2,246	(3,624 )
Net loss	\$(2,294 )	\$(29,925 )

	Year Months Ended		
	December 31, 2017	2016	
<b>Revenues by source</b>			
U.S. commercial revenue	\$86,925	\$106,918	
Other	14,814	13,330	
<b>Total revenues</b>	<b>\$101,739</b>	<b>\$120,248</b>	
<b>Gross profit by source</b>			
U.S. commercial revenue	\$60,709	\$71,432	
Other	1,624	4,702	
<b>Total gross profit</b>	<b>\$62,333</b>	<b>\$76,134</b>	
<b>Gross profit margin by source</b>			
U.S. commercial revenue	69.8	% 66.8	%
Other	11.0	% 35.3	%
<b>Total gross profit margin</b>	<b>61.3</b>	<b>% 63.3</b>	<b>%</b>

#### Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

**Revenues.** Revenues were \$101.7 million for the year ended December 31, 2017 compared to \$120.2 million for the year ended December 31, 2016, representing a decrease of \$18.5 million, or 15.4%.

U.S. commercial revenues were \$86.9 million for the year ended December 31, 2017 compared to \$106.9 million for the year ended December 31, 2016, representing a decrease of \$20.0 million or 18.7%. The decreases in revenue were attributed to a combination of volume, product mix, and pricing as a result of lost distributors and customers and related overall change in revenue composition associated with the financial and operational challenges the Company faced in 2016, which led to the sale of the Company's international business in order to sustain operations. Revenue was also significantly impacted by the Company's decision to exit the stocking distributor model and terminate distributor relationships that are not representative of the Company's long-term business and rebranding strategy, and transition to dedicated distribution partners. While our U.S. commercial revenue declined in 2017, revenues from dedicated distribution partners increased significantly over 2016. In fact, revenue from our dedicated distributors as a percentage of total revenue increased from less than 10.0% in the fourth quarter of 2016 to over 40.0% in the fourth quarter of 2017.

Other revenues were \$14.8 million for the year ended December 31, 2017 compared to \$13.3 million for the year ended December 31, 2016, primarily reflecting a full year of revenue in 2017 under our supply agreement with Globus.

**Cost of revenues.** Cost of revenues was \$39.4 million for the year ended December 31, 2017 compared to \$44.1 million for the year ended December 31, 2016, representing a decrease of \$4.7 million, or 10.7%.

Cost of U.S. Commercial revenues for the year ended December 31, 2017 was \$26.2 million compared to \$35.5 million for the year ended December 31, 2016, representing a decrease of \$9.3 million, or 26.2%. These decreases are attributable to lower sales volumes, as well as a reduction in excess inventory quantities and product life cycle management activities during the comparable periods in 2016.

Cost of other revenues, which are primarily attributed to sales to Globus under the Supply Agreement, were \$13.2 million for the year ended December 31, 2017 compared to \$8.6 million for year ended December 31, 2016, representing an increase of \$4.6 million. This increase was attributed to higher sales volumes in 2017 as compared to the same period in 2016, offset by a decrease in the average selling price to Globus in 2017 compared to sales to international affiliates in 2016.

Gross profit. Gross profit was \$62.3 million for the year ended December 31, 2017 compared to \$76.1 million for the year ended December 31, 2016, representing a decrease of \$13.8 million, or 18.1 %.

Gross profit margin from U.S. commercial revenues was 69.8% for the year ended December 31, 2017 compared to 66.8% for the year ended December 31, 2016. These increases are attributable to a reduction in obsolescence expense and product life cycle management activities during the comparable period in 2016, as well as decreased fixed manufacturing overhead costs due to the consolidation of our facilities and termination of in-house manufacturing activities in early 2017.



Gross profit margin from other revenues was 11.0% for the year ended December 31, 2017 compared to 35.3% for the year ended December 31, 2016. The decrease in gross margin was primarily related to the sale of our international business to Globus, for which we supply international products at a reduced margin compared to historical levels.

Research and development. Research and development expense was \$4.9 million for the year ended December 31, 2017 compared to \$9.2 million for the year ended December 31, 2016 representing a decrease of \$4.3 million, or 46.7%. The decrease was primarily related to a reduction of development activities (\$0.5 million), a reduction in stock-based compensation related costs under a consulting agreement (\$2.1 million), a reduction in personnel related costs (\$1.4 million) and a reduction of facility allocation expense (\$0.3 million). We expect research and development expenses to increase in the next fiscal year as we continue to invest in our product pipeline.

Sales and marketing. Sales and marketing expense was \$41.2 million for the year ended December 31, 2017 compared to \$51.0 million for the year ended December 31, 2016 representing a decrease of \$9.8 million, or 19.2%. The decrease was the result of lower commission expense due to lower revenues (\$4.4 million), a decrease in personnel and related expenses due to headcount reductions (\$3.8 million) and a reduction in general sales and marketing expenses due to the sale of our international business. We expect our sales and marketing expenses to increase in absolute dollars in line with expected increases in our revenues.

General and administrative. General and administrative expense was \$23.2 million for the year ended December 31, 2017 compared to \$26.3 million for the year ended December 31, 2016, representing a decrease of \$3.1 million, or 11.8%. The decrease was primarily due to a reduction in legal, accounting and professional services fees (\$3.7 million), a reduction in personnel and related expenses due to headcount reduction (\$2.5 million), partially offset by an increase in share based compensation (\$2.6 million), and an increase in regulatory and facility expense (\$0.5 million).

Amortization of acquired intangible assets. Amortization of intangible assets was \$0.7 million for the year ended December 31, 2017 as compared to \$0.9 million for the year ended December 31, 2016. This expense represents amortization in the period for intangible assets associated with general business assets, intellectual property, licenses and other assets obtained in acquisitions and licensing agreements.

Impairment of intangible assets. Intangible assets impairment charge of \$1.7 million for the year ended December 31, 2016 was related to the Globus Transaction.

Restructuring expenses. Restructuring expenses were \$2.2 million for the year ended December 31, 2017 compared to \$2.3 million for the year ended December 31, 2016. Beginning in late 2016 with the sale of our international business to Globus and continuing in 2017, we began a corporate initiative to rationalize our cost structure in line with our reduced operations and implemented a strategic repositioning of the Company, including the changeover of our senior leadership team. As a result of these initiatives, we reduced headcount from 163 employees as of December 31, 2016 to 141 employees at December 31, 2017, and have incurred related restructuring costs consisting primarily of severance and other personnel charges.

Gain on sale of assets. During the year ended December 31, 2017, we recorded a net gain of \$0.9 million pursuant to a sale of certain inventory and intellectual property to a third party for \$1.0 million in consideration, payable via a credit to future minimum royalties owed to the third party under an existing exclusive license agreement.

Interest expense, net. Interest expense, net, was \$7.5 million for year ended December 31, 2017 compared to \$5.4 million for the year ended December 31, 2016 representing an increase of \$2.1 million, primarily due to increased interest expenses related to the Globus Credit Facility which was outstanding for twelve months in 2017 compared with four months in 2016 (from September to December 2016).

Loss on debt extinguishment: Loss on debt extinguishment expenses of \$9.5 million in 2016 were related to early retirement of Deerfield debt with proceeds from the Globus Transaction as described above.

Gain (loss) on change in fair value of warrants. Gain on change in fair value of warrants of \$12.0 million in 2017 represented the reduction of the fair value of the warrants issued to certain investors during the period when such warrants were temporarily classified as a liability in the fourth quarter of 2017. Based on the terms of the warrants issued in the March 2017 private placement, the Company may be required to settle the warrants with cash upon a fundamental transaction. As of the issuance date and up until October 19, 2017, the warrant holders did not have control of the Company's Board of Directors and as a result, the warrants were classified in equity. From October 19, 2017 to December 29, 2017, the warrant holders temporarily represented the majority of the Board of Directors and thus had control over any vote on a fundamental transaction. As a result, we were potentially required to settle the warrants with cash and the warrants were classified as a liability. On December 29, 2017, two board members who are warrant holders entered into recusal agreements, pursuant to which they agreed to abstain from voting on any fundamental transaction so long as their warrants are outstanding. Accordingly, the warrants were re-classified to equity on December 29, 2017.

The loss of \$0.7 million in 2016 represented a change in fair value of warrants issued related to Deerfield Facility.

Income tax benefit. The income tax provision in continuing operations was a benefit of \$34,000 for the year ended December 31, 2017 compared to a benefit of (\$4.6) million for the year ended December 31, 2016. The 2017 income tax benefit from continuing operations primarily consists of the reversal of an uncertain tax position and the recognition of refundable federal minimum tax credits, partially offset by state taxes. The 2016 income tax benefit from continuing operations consists of income tax benefits related to domestic losses partially offset by state income taxes. ASC 740-20 requires total income tax expense or benefit to be allocated among continuing operations, discontinued operations, extraordinary items, other comprehensive income and items charged directly to shareholders' equity. This allocation is referred to as intra-period tax allocation. Accordingly, we are required to allocate the provision or benefit for income taxes between continuing operations and discontinued operations. For the year ended for December 31, 2017, we recorded a tax benefit of \$2.5 million in discontinued operations related to reversal of reserves of uncertain tax positions. For the year ended December 31, 2016, we recognized a gain from discontinued operations before tax, and, as a result, we recorded a tax expense of \$6.5 million in discontinued operations and a corresponding tax benefit to continuing operations.

Income (loss) from discontinued operations. On September 1, 2016, we completed the sale of our International Business to Globus, whereby we sold our international distribution operations and agreements, including wholly-owned subsidiaries in Japan and Brazil and substantially all of the assets of other sales operations in the United Kingdom and Italy. As a result of the strategic decision to sell the International Business and focus on U.S market, the consolidated statements of operations and the consolidated balance sheets reflect the financial results from the International Business as discontinued operations for all periods presented.

For the year ended December 31, 2016, activity presented under discontinued operations in the consolidated statements of operations represents our commercial operations prior to the sale of the International Business in September 2016 including certain intercompany sales transactions as the Company will have continuing involvement due to future sales to Globus under the Supply Agreement. Certain operating expenses were also allocated to the business activities associated with the discontinued operations as well as interest expense related to our debt that we repaid using the proceeds from the sale of the International Business.

The income from discontinued operations for the year ended December 31, 2017 was primarily related to a reversal of \$2.6 million in potential tax liabilities following the wind-down of certain of our international entities.

#### Liquidity and Capital Resources

We have incurred significant net losses since inception and relied on our ability to fund our operations through revenues from the sale of our products, debt financings and equity financings, including our private placement in March 2017 ( "2017 Private Placement"). As we have incurred losses, a successful transition to profitability is dependent upon achieving a level of revenues adequate to support our cost structure. This may not occur and, unless and until it does, we will continue to need to raise additional capital. At December 31, 2017, our principal sources of liquidity consisted of cash of \$22.5 million and accounts receivable, net of \$14.8 million. We believe that our current available cash, combined with proceeds from March 2018 Private Placement (described below) and draws on our revolving credit facility, will be sufficient to fund our planned expenditures and meet our obligations for at least 12 months following our financial statement issuance date.

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, payments relating to purchases of surgical instruments, repayments of borrowings under the Amended Credit Facility, payments due under the Orthotec settlement agreement and acquisitions of businesses and intellectual property rights. We expect that our principal uses of cash in the future will be similar. We expect that, as our revenues grow, our sales and marketing, research and development expenses and

our capital expenditures will continue to grow and, as a result, we will need to generate significant net revenues to achieve profitability. Operating losses and negative cash flows may continue for at least the next year as we continue to incur costs related to the execution of our operating plan and introduction of new products.

On March 8, 2018, we completed a \$39.7 million first close of a \$45.2 million private placement of our securities to certain institutional and accredited investors, including certain directors and executive officers of the Company. The second close of the private placement is expected to occur within five business days. The private placement was led by L-5 Healthcare Partners, an institutional investor, and provides for the sale by the Company of approximately 14.3 shares of newly created Series B Convertible Preferred Stock, which are automatically convertible into approximately 14.3 million shares of common stock (representing a purchase price of \$3.15 per common share), upon approval by Alphatec's stockholders, as required in accordance with the NASDAQ Global Select Market rules. Purchasers also received warrants to purchase up to approximately 12.2 million shares of common stock at an exercise price of \$3.50 per share. In addition, the Company entered into an agreement with Armistice Capital, an existing investor, to exercise 2.4 million warrants to purchase common shares for gross proceeds of \$4.8 million in exchange for warrants to purchase up to 1,800,000 shares of common stock at an exercise price of \$3.50 per share. The new warrants will be exercisable following approval by Alphatec stockholders, and will expire 5 years from the date of such stockholder approval. Certain directors and

executive officers of Alphatec agreed to purchase an aggregate of \$6.4 million of shares of Series B Convertible Preferred Stock, which shares are convertible into approximately 2.1 million shares of common stock (representing a purchase price of \$3.15 per common share), and warrants to purchase up to 1.7 million shares of common stock at a price of \$3.50 per share. We paid \$15 million of the net proceeds from the private placement fund the cash purchase price for SafeOp, and will use the remaining net proceeds for working capital and general corporate purposes, including the integration of next-generation neuromonitoring solutions, advancement of our product pipeline, and investment in sales and marketing to expand our market presence.

On October 2, 2017, we entered into Securities Purchase Agreements (collectively, the “Purchase Agreements”) with accredited investors Patrick Miles and Quentin Blackford (collectively, the “Purchasers”), pursuant to which Messrs. Miles and Blackford have agreed to purchase from the Company, collectively, no less than 1,549,116 and as many as 1,769,912 shares of its common stock at a purchase price of \$2.26 per share. In December 2017, the Company issued 1,769,912 shares for gross proceeds of \$4 million.

In connection with the Private Placement in March 2017 where we issued Series A convertible preferred stock and common stock, we also issued warrants to purchase 9.4 million shares of our common stock at an exercise price of \$2.00 per share and warrants to purchase 0.5 million shares of our common stock at an exercise price of \$2.50 per share, for aggregate proceeds, if exercised, of approximately \$20.0 million. During 2017 we received proceeds of approximately \$3.3 million in connection with exercise of approximately 1.7 million warrants.

We may seek additional funds from public and private equity or debt financings, borrowings under new or existing debt facilities or other sources to fund our projected operating requirements. However, there is no guarantee that we will be able to obtain further financing, or do so on reasonable terms. If we are unable to raise additional funds on a timely basis, or at all, we would be materially adversely affected.

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 December 31, 2017.

#### Amended Credit Facility and Other Debt

On August 30, 2013, we entered into the Amended Credit Facility, which amended and restated the prior credit facility that we had with MidCap. On September 1, 2016, we entered into a Fifth Amendment to the MidCap Amended Facility Agreement, or the MidCap Fifth Amendment, that: (a) permitted (i) the Globus Transaction, (ii) the release of Alphatec International LLC and Alphatec Pacific, Inc. as credit parties, (iii) the payment in full of all obligations to Deerfield under the Facility Agreement between us and Deerfield, dated as of March 17, 2014, as amended to date, or the Deerfield Facility Agreement, and (iv) the incurrence of debt under the Globus Facility Agreement and the granting of liens in favor of Globus, (b) reduced the revolving credit commitment to \$22.5 million and the term loan commitment to \$5 million, (c) revised the existing financial covenant package, and (d) extended the commitment expiry date from December 31, 2016 to December 31, 2019. In connection with the prepayment of the term loan under the Amended Credit Facility, we incurred a prepayment fee of \$0.6 million payable to MidCap. On March 30, 2017, we entered into a Sixth Amendment to the Amended Credit Facility to extend the date that the financial covenants of the Amended Credit Facility are effective from April 2017 to April 2018, and on March 8, 2018, we entered into a Seventh Amendment to the Amended Credit Facility to extend the date that the financial covenants of the Amended Credit Facility are effective from April 2017 to April 2019, and established a minimum liquidity covenant of \$5.0 million through March 31, 2019.

The term loan interest rate is priced at the London Interbank Offered Rate, or 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 December 31, 2017, the revolving line of credit carried an interest rate of 7.36% and the term loan carried an interest rate of

9.5%. The borrowing base is determined, from time to time, based on the value of domestic eligible accounts receivable. As collateral for the Amended Credit Facility, we granted MidCap a security interest in all accounts receivable and all securities evidencing its interests in our subsidiaries. In addition to monthly payments of interest, monthly repayments of \$0.2 million in 2017 and \$0.3 million in 2018 through maturity are due, with the remaining principal due upon maturity. As of December 31, 2017, \$10.3 million was outstanding under the revolving line of credit and \$2.4 million was outstanding under the term loan.

The Amended Credit Facility includes traditional lending and reporting covenants including a fixed charge coverage ratio to be maintained by us. The Amended Credit Facility also includes several event of default provisions, such as payment default, insolvency conditions and a material adverse effect clause, 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.

On September 1, 2016, we entered into the Globus Facility Agreement, pursuant to which Globus agreed to loan us up to \$30 million, subject to the terms and conditions set forth in the Globus Facility Agreement. We made an initial draw of \$25 million under

the Globus Facility Agreement with an additional draw of \$5 million made in the fourth quarter of 2016. As of December 31, 2017, the outstanding balance under the Globus Facility Agreement was \$30.0 million, which becomes due and payable in quarterly payments of \$0.8 million starting November 2018 and the final payment due on September 30, 2021. The term loan interest rate is priced at LIBOR plus 8.0% through September 1, 2018, and LIBOR plus 13.0%, thereafter. On March 30, 2017, we entered into a First Amendment to the Credit Facility to extend the date that the financial covenants of the Globus Facility Agreement are effective from April 2017 to April 2018, and on March 8, 2018, we entered into a Second Amendment to the Amended Globus Facility Agreement to extend the date that the financial covenants of the Amended Globus Facility Agreement are effective from April 2018 to April 2019, and established a minimum liquidity covenant of \$5.0 million through March 31, 2019.

As collateral for the Globus Facility Agreement, we granted Globus a first lien security interest in substantially all of our assets, other than accounts receivable and related assets, which will secure the Globus Facility Agreement on a second lien basis.

We have various capital lease arrangements. The leases bear interest at rates ranging from 6.8% to 9.6%, are generally due in monthly principal and interest installments, are collateralized by the related equipment, and have various maturity dates through December 2022. As of December 31, 2017, the balance of these capital leases, net of interest totaled \$0.2 million.

As of December 31, 2017, we have made \$31.8 million in Orthotec settlement payments and there remains an aggregate \$26.0 million of Orthotec settlement payments (including interest) to be paid by us.

#### Operating Activities

We used net cash of \$8.7 million from operating activities for the year ended December 31, 2017. During this period, net cash used in operating activities consisted of i) our net loss adjusted for non-cash adjustment, including the \$12.0 million gain from change of fair value of warrants, \$7.5 million of depreciation and amortization expenses, \$3.9 million of share based compensation, and \$2.5 million of inventory reserve expenses, and ii) changes in carrying amounts of operating assets and liabilities, primarily a decrease of \$9.5 million in long term liabilities, a decrease of \$6.2 million in accrued expenses and a decrease of \$4.2 million in accounts receivable.

#### Investing Activities

We used cash of \$6.5 million in investing activities for the year ended December 31, 2017, primarily for the purchase of surgical instruments of \$7.6 million, net of \$1.1 million of cash received from sale of instruments.

#### Financing Activities

Financing activities provided net cash of \$17.8 million for the year ended December 31, 2017, primarily attributable to our 2017 Private Placement, which provided net cash proceeds of \$17.1 million, and issuance of common stock to certain board of directors for \$3.7 million, exercise of warrants issued in our 2017 Private Placement of \$3.3 million and issuance of common stock under the Employee Stock Purchase Plan of \$0.2 million. Under the MidCap Amended Credit Facility, we made net payments of \$2.2 million during the year ended December 31, 2017. We also made principal payments on notes payable and capital leases totaling \$4.4 million in the year ended December 31, 2017.

## Contractual obligations and commercial commitments

Total contractual obligations and commercial commitments as of December 31, 2017 are summarized in the following table (in thousands):

	Payment Due by Year						
	Total	2018	2019	2020	2021	2022	Thereafter
Amended Credit Facility with MidCap	\$ 13,274	\$ 2,379	\$ —	\$ 10,895	\$ —	\$ —	\$ —
Amended Facility Agreement with Globus	30,000	1,667	3,333	3,333	21,667	—	—
Interest expense	15,784	4,892	5,404	3,460	2,028	—	—
Note payable for software agreements	200	63	90	47	—	—	—
Capital lease obligations	253	105	37	37	37	37	—
Operating lease obligations	5,879	1,679	1,583	1,624	993	—	—
Litigation settlement obligations	30,696	5,783	5,559	5,321	4,668	4,814	4,551
Guaranteed minimum royalty obligations	6,452	1,256	981	943	918	918	1,436
Stock price guarantee <sup>(1)</sup>	6,789	4,485	2,304	—	—	—	—
New product development milestones <sup>(2)</sup>	600	—	200	—	200	—	200
<b>Total</b>	<b>\$ 109,927</b>	<b>\$ 22,309</b>	<b>\$ 19,491</b>	<b>\$ 25,660</b>	<b>\$ 30,511</b>	<b>\$ 5,769</b>	<b>\$ 6,187</b>

(1) Based on our closing stock price as of December 30, 2017, the last trading date of the fiscal year, of \$2.66 per share. Pursuant to a three-year collaboration agreement, we agreed to make three annual payments to the collaborator as sole consideration for services provided, paid in our common stock at a per share price of \$23.35, which was equal to the average NASDAQ closing price of the common stock on the five days leading up to and including the date of signing the collaboration agreement. In February 2018, the Company reached a settlement agreement with the Collaborators pursuant to which the Company will pay the collaborators cash of \$0.4 million as the final and total compensation under the collaboration agreement. In addition, the Company and the collaborators agreed to a mutual release of each other of all rights and claims arising from the collaboration agreement.

(2) This commitment represents payments in cash, and is subject to attaining certain sales milestones, development milestones such as FDA approval, product design and functionality testing requirements, which we believe are reasonably likely to be achieved during the period from 2018 through 2020.

## Real Property Leases

In January 2016, we entered into a lease agreement, or the Building Lease, for office, engineering, and research and development space in Carlsbad, California with the lease term through July 31, 2021. Under the Building Lease our monthly rent payable is approximately \$105,000 per month during the first year and increases by approximately \$3,000 each year thereafter.

## Off-Balance Sheet Arrangements

As of December 31, 2017, we did not have any off-balance sheet arrangements.

## Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, we evaluate



our estimates and assumptions, including those related to revenue recognition, allowances for accounts receivable, inventories, goodwill and intangible assets, stock-based compensation and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions conditions.

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

#### Revenue Recognition

We recognize revenue when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured. In addition, we account for revenue under provisions which set forth guidelines for the timing of revenue recognition based upon factors such as passage of title, installation, payment and customer acceptance. Determination of criteria

(iii) and (iv) are based on management's judgment regarding the fixed nature of the fee charged for products delivered and the collectability of those fees. Specifically, our revenue from sales of spinal and other surgical implants is recognized upon receipt of written acknowledgment that the product has been used in a surgical procedure or upon shipment to third-party customers who immediately accept title to such implant. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenues recognized for any reporting period could be adversely impacted.

The application of the multiple element guidance requires subjective determinations, and requires us to make judgments about the individual deliverables and whether such deliverables are separable from the other aspects of the contractual relationship. Deliverables are considered separate units of accounting provided that: (1) the delivered items has value to the customer on a stand-alone basis and (2) if the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in our control. In determining the units of accounting, we evaluate certain criteria, including whether the deliverables have stand-alone value, based on the consideration of the relevant facts and circumstances for each arrangement. In addition, we consider whether the buyer can use the other deliverables for their intended purpose without the receipt of the remaining elements, whether the value of the deliverable is dependent on the undelivered items, and whether there are other vendors that can provide the undelivered elements.

Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer. The consideration received is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Arrangement consideration that is fixed or determinable is allocated among the separate units of accounting using the relative selling price method, and the applicable revenue recognition criteria are applied to each of the separate units of accounting in determining the appropriate period or pattern of recognition. We determine the estimated selling price for deliverables within each agreement using vendor-specific objective evidence (VSOE) of selling price, if available, third-party evidence (TPE) of selling price if VSOE is not available, or management's best estimate of selling price (BESP) if neither VSOE nor TPE is available. Determining the BESP for a unit of accounting requires significant judgment. In developing the BESP for a unit of accounting, we consider applicable market conditions and relevant entity-specific factors, including factors that were contemplated in negotiating the agreement with the customer and estimated costs.

#### Inventories

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

#### Valuation of Intangible Assets

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

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

If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. Significant management judgment is required in estimating the fair value of our intangible assets.

#### Warrants to purchase common stock

Warrants are accounted for in accordance with the applicable accounting guidance provided in ASC 815 - Derivatives and Hedging as either derivative liabilities or as equity instruments depending on the specific terms of the agreements. Liability-classified instruments are recorded at fair value at each reporting period with any change in fair value recognized as a component of change in

fair value of derivative liabilities in the consolidated statements of operations. We estimate liability classified instruments using the Black Scholes model, which require management to develop assumptions and inputs that have significant impact on such valuations.

During each reporting period, we evaluate changes in facts and circumstances that could impact the classification of warrants from liability to equity, or vice versa

### Stock-Based Compensation

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

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

• Estimated volatility is a measure of the amount by which our stock price is expected to fluctuate each year during the expected life of the award. Our estimated volatility through December 31, 2017 was based on our actual historical volatility. An increase in the estimated volatility would result in an increase to our stock-based compensation expense.

• The expected term represents the period of time that awards granted are expected to be outstanding. Our estimated expected term through December 31, 2017 was calculated using a weighted-average term based on historical exercise patterns and the term from option grant date to exercise for the options granted within the specified date range. An increase in the expected term would result in an increase to our stock-based compensation expense.

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

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

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

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

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

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

	Year Ended December 31,	
	2017	2016
Cost of revenues	\$40	\$36
Research and development	127	438
Sales and marketing	480	258
General and administrative	3,255	894
<b>Total</b>	<b>\$3,902</b>	<b>\$1,626</b>
Effect on basic net loss per share	\$0.31	\$(0.19 )
Effect on diluted net loss per share	\$0.29	\$(0.19 )

### Income Taxes

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

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

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance related to revenue recognition. This new standard replaces all current U.S. GAAP guidance on this topic and eliminates 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 for which the entity expects to be entitled in exchange for those goods or services. This guidance, including all subsequent clarifications, is effective for us for annual and interim reporting periods in fiscal years beginning after December 15, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We performed an assessment of the impact of the new standard on the consolidated financial statements, and considered all items outlined in the standard. In assessing the impact, we outlined all revenue generating activities, mapped those activities to performance obligations and traced those performance obligations to the standard. We assessed the potential impact the change in standard will have on those performance obligations. Based on our assessment, the overall impact of adoption of the new revenue recognition standard is expected to be immaterial. We expect to adopt the standard using the modified retrospective approach, pursuant to which, the impact of adoption, if material, will be recorded as a cumulative catch up entry to accumulated deficit as of January 1, 2018, the date of adoption.

In July 2015, the FASB issued new accounting guidance, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value for entities that do not measure inventory using the last-in, first-out or retail inventory method. The guidance also eliminates the requirement for these entities to consider replacement cost or net realizable value less an approximately normal profit margin when measuring

inventory. The guidance was effective for us for annual and interim reporting periods in fiscal years beginning after December 15, 2016. The adoption, effective January 1, 2017, did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued new accounting guidance, which changes several aspects of the accounting for leases, including the requirement that all leases with durations greater than twelve months be recognized on the balance sheet. The guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2018. We are evaluating the impact of adopting this new accounting standard on our financial statements.

In March 2016, the FASB issued new accounting guidance, which changes several aspects of the accounting for share-based payment award transactions, including accounting and cash flow classification for excess tax benefits and deficiencies, forfeitures, and tax withholding requirements and cash flow classification. The guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2016. We adopted the standard for reporting periods beginning January 1, 2017. We elected to keep its policy consistent for the application of a forfeiture rate and, therefore, the adoption of the guidance did not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued new accounting guidance, which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. The guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. We are evaluating the new guidance and have not determined the impact this standards update may have on our financial statements.

In January 2017, the FASB issued new accounting guidance, which was created to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance provides a screen to determine whether an integrated set of assets and activities is a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2017. We are in the process of evaluating the impact of this guidance on our consolidated financial statements in connection with the acquisition of SafeOp (Note 14).

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation, to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718 to a change in the terms or conditions of a share-based payment award. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. The amendments in ASU 2017-09 are effective for fiscal and interim reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. We do not anticipate that the adoption of ASU 2017-09 will have a material impact on our consolidated financial statements unless a transaction occurs that would need to be evaluated under this guidance at which time we will assess the impact of this standard.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception. The ASU allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, such as warrants, an entity will treat the value of the effect of the down round, when triggered, as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. The guidance in ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. We do not anticipate that the adoption of ASU 2017-11 will have a material impact on our consolidated financial statements unless a transaction occurs that would need to be evaluated under this guidance at which time we will assess the impact of this standard.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk

Our borrowings under our line of credit expose us to market risk related to changes in interest rates. As of December 31, 2017, our outstanding floating rate indebtedness totaled \$41.1 million. The primary base interest rate is LIBOR. 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 \$0.4 million. Other outstanding debt consists of fixed rate instruments, including notes payable and capital leases.

Item 8. Financial Statements and Supplementary Data

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

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

None.

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Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit pursuant to 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 Principal Financial Officer, or persons performing similar functions, 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 Principal Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

Our management, including our Chief Executive Officer and Principal Financial Officer, has performed an assessment of our internal control over financial reporting described in "Internal Control—Integrated Framework" (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether our internal control over financial reporting was effective as of December 31, 2017. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2017.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. We were not required to have, nor have we, engaged our independent registered public accounting firm to perform an audit of internal control over financial reporting pursuant to SEC rules that permit us to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with our evaluation of such internal control that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

On March 8, 2018, Alphatec Holdings, Alphatec Spine and Midcap entered into a Seventh Amendment (the “Midcap Seventh Amendment”) to the Amended Credit Facility with Midcap. The Midcap Sixth Amendment amends the defined time periods during which we are required to calculate the fixed charge coverage ratio in order to determine our compliance with the applicable covenants of the Amended Credit Facility with Midcap.

On March 8, 2018, Alphatec Holdings, Alphatec Spine and Globus entered into a Second Amendment (the “Globus Second Amendment”) to the Globus Facility Agreement. The Globus First Amendment amends the defined time periods during which we are required to calculate the fixed charge coverage ratio in order to determine our compliance with the applicable covenants of the Globus Facility Agreement.

The foregoing descriptions do not purport to be complete and is qualified in its entirety by reference to the Midcap Seventh Amendment and the Globus Second Amendment, copies of which will be filed with the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2018.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions “Management,” “Corporate Governance Matters,” “Compliance with Section 16(a) of the Securities Exchange Act of 1934,” and “Code of Conduct and Ethics” in our Proxy Statement for the 2018 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by Item 11 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions “Executive Officer and Director Compensation,” “Compensation Discussion and Analysis,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report,” and “Compensation Practices and Policies Relating to Risk Management” in our Proxy Statement for the 2018 Annual Meeting of Stockholders.

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

The information required by Item 12 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” and the planned proposal entitled “Adoption of Equity Incentive Plan” in our Proxy Statement for the 2018 Annual Meeting of Stockholders.

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

The information required by Item 13 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the captions “Certain Relationships and Related Transactions,” “Management” and “Corporate Governance Matters” in our Proxy Statement for the 2018 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of this Annual Report on Form 10-K is incorporated by reference from the discussion responsive thereto under the caption “Independent Public Accountants” in our Proxy Statement for the 2018 Annual Meeting of Stockholders.

## PART IV

## Item 15. Exhibits, Financial Statement Schedules

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

## (1) Financial Statements:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-4
<u>Consolidated Statements of Operations</u>	F-5
<u>Consolidated Statements of Comprehensive Loss</u>	F-6
<u>Consolidated Statements of Stockholders' Deficit</u>	F-7
<u>Consolidated Statements of Cash Flows</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-10

## Item 15(a)(3) Exhibits List

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

Exhibit Number	Exhibit Description	Incorporated by		
		Filed with this Report	Reference herein from Form or Schedule	SEC File/ Reg. Number
2.1	<u>Purchase and Sale Agreement, dated as of July 25, 2016, by and between Alphatec Holdings, Inc. and Globus Medical Ireland, Ltd.</u>		Form 8-K (Exhibit 2.1)	07/26/16 000-52024
2.2	<u>First Amendment to Purchase and Sale Agreement, dated as of September 1, 2016, by and between Alphatec Holdings, Inc. and Globus Medical Ireland, Ltd.</u>		Form 8-K (Exhibit 2.1)	09/08/16 000-52024
2.3	<u>Second Amendment to Purchase and Sale Agreement and First Amendment to Product Manufacture and Supply Agreement, dated as of February 9, 2017, by and between Alphatec Holdings, Inc. and Globus Medical Ireland, Ltd.</u>		Form 10-K (Exhibit 2.3)	03/31/2017 000-52024
3.1	<u>Restated Certificate of Incorporation</u>		Amendment No. 2 to	04/20/06 333-131609

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		Form S-1		
		(Exhibit 3.2)		
3.2	<u>Amendment to Restated Certificate of Incorporation</u>	Form 8-K	08/24/16	000-52024
		(Exhibit 3.1(B))		
3.3	<u>Restated Bylaws</u>	Amendment No. 5 to	05/26/06	333-131609
		Form S-1		
		(Exhibit 3.4)		
3.4	<u>Form of Certificate of Designation of Preferences, Rights and Limitations of Series A convertible Preferred Stock of Alphatec Holdings, Inc.</u>	Form 8-K	03/23/2017	000-52024
		(Exhibit 3.1)		
4.1	<u>Form of Common Stock Certificate</u>	Form 10-K	03/20/14	333-131609
		(Exhibit 4.1)		

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Exhibit Number	Exhibit Description	Incorporated by		
		Filed with this Report	Reference herein from Form or Schedule	SEC File/ Reg. Number
4.2	<u>Corporate Governance Agreement, dated December 17, 2009, between the Company and certain shareholders of Scient'x Groupe S.A.S. and Scient'x S.A.</u>		Form 8-K (Exhibit 10.1)	12/22/09 000-52024
4.3	<u>Registration Rights Agreement, dated March 26, 2010, by and among Alphatec Holdings, Inc. and the other signatories thereto</u>		Form 8-K (Exhibit 4.1)	03/31/10 000-52024
4.4	<u>Warrant with Silicon Valley Bank as the Warrantholder, dated December 16, 2011</u>		Form 10-K (Exhibit 4.8)	03/05/12 000-52024
4.5	<u>Form of Warrant to Purchase Common Stock issued to each of 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") on each of March 17, 2014 and November 21, 2014.</u>		Form 8-K (Exhibit 4.1)	03/19/14 000-52024
4.6	<u>Form of Warrant</u>		Form 8-K (Exhibit 4.1)	03/23/17 000-52024
4.7	<u>Form of Registration Rights Agreement</u>		Form 8-K (Exhibit 4.2)	03/23/17 000-52024
4.8	<u>Form of Warrant to Purchase Common Stock of Alphatec Holdings, Inc. issued to Patrick S. Miles</u>		Form 8-K (Exhibit 4.1)	10/02/17 000-52024
10.1	<u>Purchase Agreement dated as of October 2, 2017, between Alphatec Holdings, Inc. and Patrick Miles.</u>		Form 8-K (Exhibit 10.1)	10/02/17 000-52024
10.2	<u>Purchase Agreement dated as of October 2, 2017, between Alphatec Holdings, Inc. and Quentin Blackford.</u>		Form 8-K (Exhibit 10.2)	10/02/17 000-52024
10.3	<u>Securities Purchase Agreement, dated as of March 22, 2017, between Alphatec Holdings, Inc. and each purchaser named in the signature pages thereto</u>		Form 8-K (Exhibit 10.1)	03/23/17 000-52024

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10.4	<u>Engagement Letter between Alphatec Holdings, Inc. and Rodman &amp; Renshaw, a unit of H.C. Wainwright &amp; Co., LLC</u>	Form 8-K (Exhibit 10.2)	03/23/17 000-52024
10.5	<u>Form of Support Agreement</u>	Form 8-K (Exhibit 10.3)	03/23/17 000-52024
	Real Property Lease Agreements		
10.6	<u>Lease Agreement by and between Alphatec Holdings, Inc. and Fenton Property Company., dated as of January 21, 2016</u>	Form 10-K (Exhibit 10.2)	03/15/16 000-52024
	Loan Agreements		
10.7†	<u>Amended and Restated Credit, Security and Guaranty Agreement dated August 30, 2013 by and among Alphatec Holdings, Inc., Alphatec Spine, Inc., Alphatec International LLC, Alphatec Pacific, Inc. and MidCap Funding IV, LLC</u>	Form 10-Q/A (Exhibit 10.1)	10/21/15 000-52024
10.8†	<u>First Amendment to Amended and Restated Credit, Security and Guaranty Agreement, dated March 17, 2014, with MidCap Funding IV, LLC as Administrative Agent and lender and other lenders from time to time a party thereto</u>	Form 8-K/A (Exhibit 10.3)	10/21/15 000-52024



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Exhibit Number	Exhibit Description	Incorporated by		
		Filed with this Report	Reference herein from Form or Schedule	SEC File/ Reg. Number
10.9†	<u>Second Amendment to the Amended and Restated Credit, Security and Guaranty Agreement, dated July 10, 2015, with MidCap Funding IV Trust, as a lender and other lenders from time to time a party thereto</u>		Form 10-Q (Exhibit 10.1)	11/03/15 000-52024
10.10†	<u>Third Amendment to the Amended and Restated Credit, Security and Guaranty Agreement, dated March 11, 2016, with MidCap Funding IV Trust, as a lender and other lenders from time to time a party thereto</u>		Form 10-Q (Exhibit 10.1)	05/06/16 000-52024
10.11†	<u>Fourth Amendment to the Amended and Restated Credit, Security and Guaranty Agreement, dated August 9, 2016, with MidCap Funding IV Trust, as a lender and other lenders from time to time a party thereto</u>		Form 10-K (Exhibit 10.6)	3/31/17 000-52024
10.12†	<u>Consent and Fifth Amendment to the Amended and Restated Credit, Security and Guaranty Agreement, dated September 1, 2016 with MidCap Funding IV Trust, as a lender and other lenders from time to time a party thereto</u>		Form 10-Q (Exhibit 10.3)	11/09/16 000-52024
10.13†	<u>Sixth Amendment to the Amended and Restated Credit, Security and Guaranty Agreement, dated March 30, 2017, with MidCap Funding IV Trust, as a lender and other lenders from time to time a party thereto</u>		Form 10-Q (Exhibit 10.1)	05/12/17 000-52024
10.14	<u>Amended and Restated Term Loan Note, dated July 10, 2015, with MidCap Funding IV Trust</u>		Form 10-Q (Exhibit 10.3)	11/03/15 000-52024
10.15†	<u>Credit, Security and Guaranty Agreement, dated September 1, 2016 with Globus Medic, Inc.</u>		Form 10-Q (Exhibit 10.1)	11/09/16 000-52024
10.16†	<u>First Amendment to the Credit, Security and Guaranty Agreement, dated March 30, 2017 with Globus Medical, Inc.</u>		Form 10-Q (Exhibit 10.2)	05/12/17 000-52024

Agreements with Respect to Product Supply, Collaborations, Licenses, Research and Development

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10.17† <u>Supply Agreement by and between Alphatec Spine, Inc. and Invibio, Inc., dated as of October 18, 2004 and amended by Letter of Amendment in respect of the Supply Agreement, dated as of December 13, 2004</u>	Amendment No. 05/15/06 333-131609 4 to  Form S-1
	(Exhibit 10.29)
10.18† <u>Letter Amendment between Alphatec Spine, Inc. and Invibio, Inc., dated November 24, 2010</u>	Form 10-Q 05/06/11 000-52024
	(Exhibit 10.3)
10.19† <u>Product Manufacture and Supply Agreement, dated September 1, 2016 with Globus Medical Ireland, Ltd.</u>	Form 10-Q 11/09/16 000-52024
	(Exhibit 10.2)
Agreements with Officers and Directors	
10.20* <u>Employment Agreement by and among Terry Rich, Alphatec Spine, Inc., and Alphatec Holdings, Inc., dated December 10, 2016</u>	Form 10-K 03/31/17 000-52024  (Exhibit 10.29)
10.21* <u>Employment Agreement with Jeffrey G. Black dated February 10, 2017</u>	Form 10-Q 05/12/27 000-52024  (Exhibit 10.3)
10.22* <u>Employment Agreement with Jon Allen dated October December 10, 2016</u>	Form 10-Q 05/12/27 000-52024  (Exhibit 10.4)
10.23* <u>Employment Agreement with Craig E. Hunsaker dated September 14, 2016</u>	Form 10-Q 05/12/27 000-52024  (Exhibit 10.5)

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Exhibit Number	Exhibit Description	Incorporated by		
		Filed with this Report	Reference herein from Form or Schedule	SEC File/ Filing Date Reg. Number
10.24*	<u>Employment Agreement with Brian Snider dated February 27, 2017</u>		Form 10-Q (Exhibit 10.6)	05/12/27 000-52024
10.25*	<u>Resignation and Transition Agreement, as amended, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Eburn S. Garner, dated January 23, 2017</u>		Form 10-Q (Exhibit 10.7)	05/12/27 000-52024
10.26*	<u>Employment Agreement by and among Patrick S. Miles, Alphatec Spine, Inc., and Alphatec Holdings, Inc., dated, dated October 2, 2017</u>	X		
10.27*	<u>Separation agreement between Mike Plunkett and Alphatec Holdings, Inc.</u>	X		
10.28*	<u>Form of Indemnification Agreement entered into with each of the Company's non-employee directors</u>		Form 10-Q (Exhibit 10.5)	05/05/09 000-52024
10.29*	<u>Vesting Acceleration Agreement by and between Leslie H. Cross and Alphatec Holdings, Inc., dated June 15, 2017</u>		Form 10-Q (Exhibit 10.11)	08/11/17 000-52024
10.30*	<u>Vesting Acceleration Agreement by and between Stephen O' Neil and Alphatec Holdings, Inc., dated October 1, 2017</u>		Form 8-K (Exhibit 10.3)	10/2/17 000-52024
	Equity Compensation Plans			
10.31*	<u>Amended and Restated 2005 Employee, Director and Consultant Stock Plan</u>		Form S-8 (Exhibit 99.1)	03/23/13 333-187190
10.32*	<u>Amendment to the Amended and Restated 2005 Employee, Director and Consultant Stock Plan</u>		Schedule 14A (Appendix B)	06/11/13 000-52024
10.33*	<u>Amendment to the Alphatec Holdings, Inc. Amended and Restated 2005 Employee, Director and Consultant Stock Plan</u>		Form 10-Q (Exhibit 10.1)	10/30/14 000-52024
10.34*	<u>Form of Non-Qualified Stock Option Agreement issued under the Amended and Restated 2005 Stock Plan</u>		Form 10-K	03/05/13 000-52024

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	(Exhibit 10.40)	
10.35* <u>Form of Incentive Stock Option Agreement issued under the Amended and Restated 2005 Stock Plan</u>	Form 10-K	03/05/13 000-52024
	(Exhibit 10.41)	
10.36* <u>Form of Restricted Stock Agreement issued under the Amended and Restated 2005 Stock Plan</u>	Form 10-K	03/05/14 000-52024
	(Exhibit 10.42)	
10.37* <u>Form of Performance-Based Restricted Unit Agreement issued under the Amended and Restated 2005 Employee, Director and Consultant Stock Plan, as amended.</u>	Form 10-Q	10/30/14 000-52024
	(Exhibit 10.2)	
10.38* <u>Amended and Restated 2007 Employee Stock Purchase Plan</u>	Schedule 14A	06/11/13 000-52024
	(Appendix C)	
10.39* <u>Amended and Restated 2007 Employee Stock Purchase Plan</u>	Form 8-K/A	06/22/17 000-52024
	(Exhibit 10.1)	
10.40* <u>Alphatec Holdings, Inc. 2016 Equity Incentive Plan</u>	Form S-8	10/05/16 333-213981
	(Exhibit 10.1)	
10.41* <u>Amended and Restated 2016 Equity Incentive Award Plan</u>	Form 8-K/A	06/22/17 000-52024
	(Exhibit 10.2)	
10.42* <u>Alphatec Holdings, Inc. 2016 Employment Inducement Award Plan</u>	Form S-8	10/05/16 333-213981
	(Exhibit 10.2)	

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Exhibit Number	Exhibit Description	Incorporated by		
		Filed with this Report	Reference herein from Form or Schedule	SEC File/ Reg. Number
10.43*	<u>First Amendment to the Alphatec Holdings, Inc. 2016 Employment Inducement Award Plan</u>		Form S-8 (Exhibit 10.2)	12/12/16 333-215036
10.44	<u>Second Amendment to the Alphatec Holdings, Inc. 2016 Employment Inducement Award Plan</u>		Form S-8 (Exhibit 10.2)	03/31/17 <u>333-217055</u>
10.45*	<u>Third Amendment to the Alphatec Holdings, Inc. 2016 Employment Inducement Award Plan, dated October 1, 2017.</u>		Form 8-K (Exhibit 10.4)	10/2/17 000-52024
10.46*	<u>Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under the Alphatec Holdings, Inc. 2016 Employment Inducement Award Plan</u>		Form S-8 (Exhibit 10.3)	10/05/16 333-213981
10.47*	<u>Form of Stock Option Grant Notice and Stock Option Agreement under the Alphatec Holdings, Inc. 2016 Employment Inducement Award Plan</u>		Form S-8 (Exhibit 10.4)	10/05/16 333-213981
10.48*	<u>Form of Performance Stock-Based Award Grant Notice and Performance Stock-Based Award Agreement under the Alphatec Holdings, Inc. 2016 Employment Inducement Award Plan</u>		Form S-8 (Exhibit 10.5)	10/05/16 333-213981
Settlement Agreements				
10.49	<u>Settlement and Release Agreement, dated as of August 13, 2014, by and among Alphatec Holdings, Inc. and its direct and indirect subsidiaries and affiliates, Orthotec, LLC, Patrick Bertranou and the other parties named therein</u>		Form 10-Q (Exhibit 10.3)	10/30/14 000-52024
21.1	<u>Subsidiaries of the Registrant and Wholly Owned Subsidiaries of the Registrant's Subsidiaries</u>	X		
23.1	<u>Consent of Independent Registered Public Accounting Firm</u>	X		
23.2	<u>Consent of Independent Registered Public Accounting Firm</u>	X		
31.1		X		

Certification of Principal Executive Officer pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002

31.2	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	X
32	<u>Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	X
101.1	XBRL Instance Document**	
101.2	XBRL Taxonomy Extension Schema Document**	
101.3	XBRL Taxonomy Extension Calculation Linkbase Document**	
101.4	XBRL Taxonomy Extension Definition Linkbase Document**	
101.5	XBRL Taxonomy Extension Label Linkbase Document**	
101.6	XBRL Taxonomy Extension Presentation Linkbase Document**	

(\*) Management contract or compensatory plan or arrangement.

(†) Confidential treatment has been granted by the Securities and Exchange Commission as to certain portions.

(\*\*) Confidential treatment is being requested as to certain portions of this exhibit.

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.

Dated: March 9, 2018 By: /s/ Patrick S. Miles  
Patrick S. Miles  
Chairman and Chief Executive Officer  
(principal executive officer)

Dated: March 9, 2018 By: /s/ Jeffrey G. Black  
Jeffrey G. Black  
Executive Vice President and Chief Financial Officer  
(principal financial officer and principal accounting officer)

SIGNATURES AND POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Patrick S. Miles and Jeffrey G. Black, and each of them, as his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them, or his or her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Signature	Title	Date
/S/ PATRICK S. MILES	Chairman and Chief Executive Officer	March 9, 2018
Patrick S. Miles	(Principal Executive Officer)	
/S/ TERRY M. RICH	Director, President	March 9, 2018
Terry M. Rich	and Chief Operating	

Officer

/S/ MORTIMER BERKOWITZ III	Lead Director	March 9, 2018
Mortimer Berkowitz III		
/S/ QUENTIN BLACKFORD	Director	March 9, 2018
Quentin Blackford		
/S/ R. IAN MOLSON	Director	March 9, 2018
R. Ian Molson		
/S/ DAVID H. MOWRY	Director	March 9, 2018
David H. Mowry		
/S/ DONALD A. WILLIAMS	Director	March 9, 2018
Donald A. Williams		
/S/ JEFFREY P. RYDIN	Director	March 9, 2018
Jeffrey P. Rydin		
/S/ WARD W. WOODS	Director	March 9, 2018
Ward W. Woods		



ALPHATEC HOLDINGS, INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Alphatec Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Alphatec Holdings, Inc. ("Company") as of December 31, 2017, and the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also

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included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Mayer Hoffman McCann P.C.

We have served as the Company's auditor since 2017.

San Diego, California

March 9, 2018



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Alphatec Holdings, Inc.

We have audited the accompanying consolidated balance sheet of Alphatec Holdings, Inc. as of December 31, 2016, and the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for the year ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alphatec Holdings, Inc. at December 31, 2016, and the consolidated results of its operations and its cash flows for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Diego, California

March 30, 2017

## ALPHATEC HOLDINGS, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except par value data)

	December 31,	
	2017	2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$22,466	\$19,593
Accounts receivable, net	14,822	18,512
Inventories, net	27,292	30,093
Prepaid expenses and other current assets	1,767	4,262
Current assets of discontinued operations	131	364
Total current assets	66,478	72,824
Property and equipment, net	12,670	15,076
Intangibles, net	5,248	5,711
Other assets	208	516
Noncurrent assets of discontinued operations	56	61
Total assets	\$84,660	\$94,188
<b>Liabilities and Stockholders' Deficit</b>		
<b>Current liabilities:</b>		
Accounts payable	\$3,878	\$8,701
Accrued expenses	22,246	27,589
Current portion of long-term debt	3,306	3,113
Current liabilities of discontinued operations	312	732
Total current liabilities	29,742	40,135
Long-term debt, less current portion	37,767	43,092
Other long-term liabilities	20,206	28,862
Redeemable preferred stock, \$0.0001 par value; 20,000 authorized at December 31, 2017		
and 2016; 3,319 shares issued and outstanding at both December 31, 2017 and 2016	23,603	23,603
Commitments and contingencies		
<b>Stockholders' deficit:</b>		
Series A convertible preferred stock, \$0.0001 par value; 15 and 0 shares authorized at		
December 31, 2017 and 2016, respectively; 5 shares issued and outstanding at		
December 31, 2017	—	—
Common stock, \$0.0001 par value; 200,000 authorized; 19,857 and 9,049		
shares issued and outstanding at December 31, 2017 and 2016, respectively	2	1
Treasury stock, 2 shares, at cost	(97 )	(97 )
Additional paid-in capital	436,803	419,787
Shareholder note receivable	(5,000 )	(5,000 )
Accumulated other comprehensive income	1,093	970
Accumulated deficit	(459,459)	(457,165)
Total stockholders' deficit	(26,658 )	(41,504 )

Total liabilities and stockholders' deficit	\$84,660	\$94,188
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See accompanying notes to consolidated financial statements.

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## ALPHATEC HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,	
	2017	2016
Revenues	\$ 101,739	\$ 120,248
Cost of revenues	39,406	44,114
Gross profit	62,333	76,134
Operating expenses:		
Research and development	4,920	9,248
Sales and marketing	41,158	50,962
General and administrative	23,220	26,339
Amortization of intangible assets	688	934
Restructuring expenses	2,206	2,292
Impairment of intangible assets	—	1,736
Gain on sale of assets	(856 )	—
Total operating expenses	71,336	91,511
Operating loss	(9,003 )	(15,377 )
Other income (expense):		
Interest expense, net	(7,482 )	(5,365 )
Gain (loss) on change of fair value of warrants	12,044	(687 )
Loss on debt extinguishment	—	(9,478 )
Other expenses, net	(133 )	(28 )
Total other income (expense)	4,429	(15,558 )
Loss from continuing operations before taxes	(4,574 )	(30,935 )
Income tax benefit	(34 )	(4,634 )
Loss from continuing operations	(4,540 )	(26,301 )
Income (loss) from discontinued operations, net of applicable taxes	2,246	(3,624 )
Net loss	\$(2,294 )	\$(29,925 )
(Loss) income per share, basic:		
Continuing operations	\$(0.36 )	\$(3.06 )
Discontinued operations	0.18	\$(0.42 )
Net loss per share, basic	\$(0.18 )	\$(3.49 )
(Loss) income per share, diluted:		
Continuing operations	\$(1.25 )	\$(3.06 )
Discontinued operations	0.17	(0.42 )
Net loss per share, diluted	\$(1.08 )	\$(3.49 )
Shares used in calculating basic net loss per share	12,788	8,582
Shares used in calculating diluted net loss per share	13,282	8,582

See accompanying notes to consolidated financial statements.





ALPHATEC HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year Ended December 31,	
	2017	2016
Net loss	\$(2,294)	\$(29,925)
Foreign currency translation adjustments related to continuing operations	123	3,635
Foreign currency translation realized to discontinued operations	—	18,523
Comprehensive loss	\$(2,171)	\$(7,767 )

See accompanying notes to consolidated financial statements.

ALPHATEC HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

(In thousands)

	Common stock Shares	Series A Convertible Preferred Stock Par Value	Series A Convertible Preferred Stock Par Value	Additional paid-in capital	Shareholder note receivable	Treasury stock	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' deficit	
Balance at December 31, 2015	8,513	\$ 1	—	\$ —	\$ 416,948	\$ (5,000 )	\$ (97 )	\$ (21,188 )	\$ (427,240 )	\$ (36,576 )
Stock-based compensation	—	—	—	1,626	—	—	—	—	—	1,626
Repurchase and/or forfeiture of common stock	(1 )	—	—	—	—	—	—	—	—	—
Shares issued for consulting services	210	—	—	25	—	—	—	—	—	25
Issuance of common stock for employee stock purchase plan	58	—	—	114	—	—	—	—	—	114
Warrant conversion	269	—	—	1,074	—	—	—	—	—	1,074
Foreign currency translation adjustments	—	—	—	—	—	—	22,158	—	—	22,158
Net loss	—	—	—	—	—	—	—	(29,925 )	(29,925 )	(29,925 )
Balance at December 31, 2016	9,049	\$ 1	—	\$ —	\$ 419,787	\$ (5,000 )	\$ (97 )	\$ 970	\$ (457,165 )	\$ (41,504 )
Stock-based compensation	—	—	—	3,902	—	—	—	—	—	3,902
Common and preferred stock and warrants issued in private	1,810	1	15	17,117	—	—	—	—	—	17,118

placement, net of offering costs of \$1.7 million										
Conversion of preferred stock into common stock	4,964	—	(10)	—	—	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	128	—	—	—	231	—	—	—	—	231
Shares issued for acquisition of intangible assets	285	—	—	—	473	—	—	—	—	473
Common stock issued for vesting of restricted stock awards, net of shares repurchased for tax liability	183	—	—	—	—	—	—	—	—	—
Common stock issued for warrant exercises	1,668	—	—	—	3,337	—	—	—	—	3,337
Warrant derivative liability reclassified to equity due to exercise of warrants		—	—	—	2,311	—	—	—	—	2,311
Issuance of common stock and warrants to board members	1,770	—	—	—	4,000	—	—	—	—	4,000
Net change from reclassification of warrants to and from liability	—	—	—	—	(14,355)	—	—	—	—	(14,355)
Foreign currency translation	—	—	—	—	—	—	—	123	—	123

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adjustments										
Net loss				—					(2,294 )	(2,294 )
Balance at										
December 31, 2017	19,857	\$ 2	5	\$ —	\$436,803	\$ (5,000 )	\$ (97 )	\$ 1,093	\$ (459,459 )	\$ (26,658 )

See accompanying notes to consolidated financial statements.

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## ALPHATEC HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,	
	2017	2016
<b>Operating activities:</b>		
Net loss	\$(2,294 )	\$(29,925 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,481	12,364
Goodwill and intangible assets impairment	—	2,189
Stock-based compensation	3,902	1,626
Interest expense related to amortization of debt discount and debt issuance costs	2,761	3,630
(Recovery) Provision for doubtful accounts	(164 )	620
Provision for excess and obsolete inventory	2,542	5,663
Deferred income tax (benefit) provision	(36 )	10
Gain on sale of business	(856 )	(7,935 )
Loss on extinguishment of debt	—	3,863
Gain from change in estimated fair value of warrants	(12,044)	687
Loss on sale of instruments	281	—
Other non-cash items	—	(261 )
Changes in operating assets and liabilities:		
Restricted cash	—	2,350
Accounts receivable	4,153	8,000
Inventories	258	(5,742 )
Prepaid expenses and other current assets	3,080	1,074
Other assets	348	191
Accounts payable	(2,592 )	(4,865 )
Deferred revenue	223	—
Other Long term liabilities	(9,524 )	—
Accrued expenses and other	(6,248 )	(3,498 )
Net cash used in operating activities	(8,729 )	(9,959 )
<b>Investing activities:</b>		
Purchases of property and equipment	(7,596 )	(8,897 )
Purchase of intangible assets	—	(250 )
Proceeds from sale of business, net	—	69,790
Cash received from sale of assets	1,101	1,316
Net cash (used in) provided by investing activities	(6,495 )	61,959
<b>Financing activities:</b>		
Issuance of preferred and common stock, net	24,386	114

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Borrowings under lines of credit	96,244	118,482
Repayments under lines of credit	(98,443)	(134,792)
Principal payments on capital lease obligations	(572 )	(798 )
Proceeds from issuance of notes payable	—	28,046
Principal payments on notes payable and term loan	(3,794 )	(54,444 )
Net cash (used in) provided by financing activities	17,821	(43,392 )
Effect of exchange rate changes on cash	244	(85 )
Net increase in cash	2,841	8,523
Cash at beginning of year, including discontinued operations	19,752	11,229
Cash at end of year, including discontinued operations	\$22,593	\$19,752

See accompanying notes to consolidated financial statements.

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## ALPHATEC HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

(in thousands)

	Year Ended December 31,	
	2017	2016
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$4,695	\$7,368
Cash paid for income taxes	\$107	\$920
Supplemental disclosure of noncash investing and financing activities:		
Reclassification of warrant liabilities to equity	\$14,355	\$—
Purchases of property and equipment in accounts payable	\$436	\$2,668
Common stock issued for acquisition of intangible assets	\$473	\$—
Capital lease additions included in property and equipment	\$156	\$—
Subscription receivable	\$300	\$—
Cashless warrant conversion	\$—	\$1,074

See accompanying notes to consolidated financial statements.



ALPHATEC HOLDINGS, INC.

NOTE

S TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation

The Company

Alphatec Holdings, Inc. (the “Company”), through its wholly owned subsidiary, Alphatec Spine, Inc. and its subsidiaries (“Alphatec Spine”), is a medical technology company focused on the design, development and promotion of products for the surgical treatment of spine disorders. The Company has a comprehensive product portfolio and pipeline that addresses the cervical, thoracolumbar and intervertebral regions of the spine and covers a variety of spinal disorders and surgical procedures. The Company’s principal product offerings are focused on the U.S. market for fusion-based spinal disorder solutions.

On September 1, 2016, the Company completed the sale of its international distribution operations and agreements to Globus Medical Ireland, Ltd., a subsidiary of Globus Medical, Inc., and its affiliated entities (collectively “Globus”), including the Company’s wholly-owned subsidiaries in Japan, Brazil, Australia and Singapore and substantially all of the assets of the Company’s other sales operations in the United Kingdom and Italy (collectively, the “International Business”), pursuant to a purchase and sale agreement, dated as of July 25, 2016 (as amended, the “Purchase and Sale Agreement”) (the “Globus Transaction”). As a result of the Globus Transaction, the Company’s International Business has been excluded from continuing operations for all periods presented in this Annual Report on Form 10-K and is reported as discontinued operations. See Note 4 for additional information on the divestiture of the International Business. The sale of the international operations represented a strategic shift and has a significant impact on the Company’s operations and financial results.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and include the accounts of the Company and Alphatec Spine. All intercompany balances and transactions have been eliminated in consolidation. The Company operates in one reportable business segment.

On August 24, 2016, the Company filed a certificate of amendment to its certificate of incorporation with the Secretary of State of the state of Delaware to effectuate a 1-for-12 reverse stock split of the Company’s issued and outstanding common stock. The accompanying consolidated financial statements and notes thereto give retrospective effect to the reverse stock split for all periods presented. All issued and outstanding common stock, options exercisable for common stock, warrants exercisable for common stock, restricted stock units, and per share amounts contained in the Company’s consolidated financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

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 historically 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 Company's Board approved annual operating plan projects that its existing working capital at December 31, 2017 of \$36.7 million (including cash of \$22.5 million), along with the proceeds of the \$39.7 million of the first close of a \$45.2 million from private placement that closed on March 8, 2018 (see Note 14) and the amendments to its debt facilities (see Note 14), allows the Company to fund its operations through at least one year subsequent to the date the financial statements are issued.

The accompanying 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.

#### Reclassification

Certain amounts in the consolidated financial statements included in our Form 10-K for the year ended December 31, 2016 have been reclassified to conform to current period's presentation. Reclassifications between changes in fair value of warrants and other income (loss) were made to improve the comparability of the financial statements. None of the adjustments had any effect on the prior period net loss.

## 2. Summary of Significant Accounting Policies

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property and equipment, allowances for doubtful accounts and sales returns, the valuation of share based liabilities, valuation of warrant liabilities, deferred tax assets, property and equipment, inventory, investments, notes receivable and stock-based compensation, revenues, reserves for employee benefit obligations, restructuring liabilities, income tax uncertainties and other contingencies.

### Concentrations of Credit Risk and Significant Customers

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and accounts receivable. The Company limits its exposure to credit loss by depositing its cash with established financial institutions. As of December 31, 2017, a substantial portion of the Company's available cash funds is held in business accounts. Although the Company deposits its cash with multiple financial institutions, its deposits, at times, may exceed federally insured limits.

The Company's customers are primarily hospitals, surgical centers and distributors and one single customer represented greater than 10 percent of consolidated revenues and accounts receivable for any of the periods presented. Credit to customers is granted based on an analysis of the customers' credit worthiness and credit losses have not been significant.

### Revenue Recognition

The Company derives its revenues primarily from the sale of spinal surgery implants used in the treatment of spine disorders. The Company sells its products primarily through its direct sales force and independent distributors. Revenue is recognized when all four of the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured. In addition, the Company accounts for revenue under provisions which set forth guidelines for the timing of revenue recognition based upon factors such as passage of title, installation, payment and customer acceptance.

The Company's revenue from sales of spinal and other surgical implant products is recognized upon receipt of written acknowledgment that the product has been used in a surgical procedure or upon shipment to third-party customers who immediately accept title to such product.

The application of the multiple element guidance requires subjective determinations, and requires the Company to make judgments about the individual deliverables and whether such deliverables are separable from the other aspects of the contractual relationship. Deliverables are considered separate units of accounting provided that: (1) the delivered items has value to the customer on a stand-alone basis and (2) if the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the Company's control. In determining the units of accounting, the Company evaluates certain criteria, including whether the deliverables have stand-alone value, based on the consideration of the relevant facts and circumstances for each arrangement. In addition, the Company considers whether the buyer can use the other

deliverables for their intended purpose without the receipt of the remaining elements, whether the value of the deliverable is dependent on the undelivered items, and whether there are other vendors that can provide the undelivered elements.

Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer. The consideration received is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Arrangement consideration that is fixed or determinable is allocated among the separate units of accounting using the relative selling price method, and the applicable revenue recognition criteria are applied to each of the separate units of accounting in determining the appropriate period or pattern of recognition. The Company determines the estimated selling price for deliverables within each agreement using vendor-specific objective evidence (“VSOE”) of selling price, if available, third-party evidence (“TPE”) of selling price if VSOE is not available, or management's best estimate of selling price (“BESP”) if neither VSOE nor TPE is available. Determining the BESP for a unit of accounting requires significant judgment. In developing the BESP for a unit of accounting, the Company considers applicable market conditions and relevant entity-specific factors, including factors that were contemplated in negotiating the agreement with the customer and estimated costs.

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#### Accounts Receivable, net

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

#### Inventories, net

Inventories are stated at the lower of cost or net realizable value, with cost primarily determined under the first-in, first-out method. The Company reviews the components of inventory on a periodic basis for excess, obsolete and impaired inventory, and records a reserve for the identified items. The Company calculates an inventory reserve for estimated excess and obsolete inventory based upon historical turnover and assumptions about future demand for its products and market conditions. The Company's biologics inventories have an expiration based on shelf life and are subject to demand fluctuations based on the availability and demand for alternative implant products. The Company's estimates and assumptions for excess and obsolete inventory are reviewed and updated on a quarterly basis. Increases in the reserve for excess and obsolete inventory result in a corresponding increase to cost of revenues and establish a new cost basis for the part. Approximately \$11.8 million and \$12.9 million of inventory was held at consigned locations as of December 31, 2017 and 2016, respectively.

#### Property and Equipment, net

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally ranging from three to seven years. Leasehold improvements and assets acquired under capital leases are amortized over the shorter of their useful lives or the remaining terms of the related leases.

#### Intangible Assets

Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for indicators of impairment. The Company amortizes its intangible assets on a straight-line basis over a one to fifteen-year period.

#### Impairment of Long-Lived Assets

The Company assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of the long-lived assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value and is recorded as a reduction in the carrying value of the related asset and a charge to operating results. There were no impairment charges in 2017. In 2016, the Company recorded an impairment of intangible assets subject to amortization in the amount of \$1.7 million.

#### Foreign Currency

Due to the sale of the International Business, the Company's exposure of exchange rate fluctuations in 2017 was insignificant. Prior to the sale of the International Business the Company's primary functional currency is the U.S. dollar, while the functional currency of the Company's foreign subsidiaries included the Japanese Yen, the Euro, the Brazilian Real, the British Pound and the Hong Kong Dollar. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated using the average exchange rate for the period. Net gains and losses resulting from the translation of foreign financial statements are recorded as accumulated other comprehensive income (loss) in stockholders' (deficit) equity. Net foreign currency gains or (losses) resulting from transactions in currencies other than the functional currencies are included in other income (expense), net and discontinued operations in the accompanying consolidated statements of operations. For the years ended December 31, 2017 and 2016, the Company recorded an immaterial amount and \$0.4 million of net foreign currency losses in continuing operations, respectively.

#### Warrants to Purchase Common Stock

Warrants are accounted for in accordance with the applicable accounting guidance provided in ASC 815 - Derivatives and Hedging as either derivative liabilities or as equity instruments depending on the specific terms of the agreements. Liability-classified instruments are recorded at fair value at each reporting period with any change in fair value recognized as a component of change in fair value of derivative liabilities in the consolidated statements of operations. The Company estimates liability classified instruments

using the Black Scholes model, which requires management to develop assumptions and inputs that have significant impact on such valuations.

The Company periodically evaluates changes in facts and circumstances that could impact the classification of warrants from liability to equity, or vice versa.

The Company issued warrants to purchase shares of the Company's common stock in connection with a private placement transaction that closed on March 29, 2017. These warrants contain a feature that could require the transfer of cash in the event of a Fundamental Transaction, as defined in such warrants (other than a Fundamental Transaction not approved by the Company's Board of Directors). From March 29, 2017, the issuance date, to September 30, 2017, the warrant holders did not control the Company's Board of Directors, and therefore, since potential future cash settlement was deemed to be within the Company's control, the warrants were classified in stockholders' equity in accordance with the authoritative accounting guidance. As described in more detail in Note 10, beginning in Q4 2017, a majority of the Board of Directors was represented by warrant holders, and thus could control a vote on a Fundamental Transaction that could require the Company to transfer cash to settle the warrants. As a result, the warrants were classified as a liability during the period when the warrant holders had control of the Board of Directors, with changes in the fair value recorded in the consolidated statement of operations.

In September 2016, in connection with the Globus Transaction, Deerfield exercised its right to convert all of its then outstanding warrants into shares of the Company's common stock based on the Black-Scholes value of the warrants. The outstanding warrants were converted into 268,614 shares of the Company's common stock. Prior to the conversion, the Company recorded the warrant liability at fair value and adjusted 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 the consolidated statements of operations.

#### 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.

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The Company does not maintain any financial instruments that are considered to be Level 1, Level 2 or Level 3 instruments as of December 31, 2017. Liability classified warrants are 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 year ended December 31, 2016 and 2017 (in thousands):

	Common Stock	Warrant	Liabilities
Balance at December 31, 2015	\$ 687		
Changes in fair value	387		
Conversion to common stock	(1,074 )		
Balance at December 31, 2016	\$ —		
Transfer from equity	29,413		
Changes in fair value	(12,044 )		
Exercises	(2,311 )		
Transfer to equity	(15,058 )		
Balance at December 31, 2017	\$ -		

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The common stock warrant liabilities were 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 (described in Note 5 below) was the expected volatility.

#### Research and Development

Research and development expense consists of costs associated with the design, development, testing, and enhancement of the Company's products. Research and development costs also include salaries and related employee benefits, research-related overhead expenses, fees paid to external service providers, and costs associated with the Company's Scientific Advisory Board and Executive Surgeon Panels. Research and development costs are expensed as incurred.

#### Leases

The Company leases its facilities and certain equipment and vehicles under operating leases, and certain equipment under capital leases. For facility leases that contain rent escalation or rent concession provisions, the Company records the total rent payable during the lease term on a straight-line basis over the term of the lease. The Company records the difference between the rent paid and the straight-line rent within accrued expenses in the accompanying consolidated balance sheets.

#### Product Shipment Cost

Product shipment costs are included in sales and marketing expense in the accompanying consolidated statements of operations. Product shipment costs totaled \$2.3 million and \$2.7 million for the years ended December 31, 2017 and 2016, respectively.

#### Stock-Based Compensation

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

The Company uses a Black-Scholes option pricing valuation model to estimate the fair value of its stock option awards. The calculation of the fair value of the awards using the Black-Scholes option pricing model is affected by the Company's common stock price on the date of grant as well as assumptions regarding the following:

Estimated volatility is a measure of the amount by which the Company's common stock price is expected to fluctuate each year during the expected life of the award. The Company's estimated volatility through December 31, 2017 was based on a weighted-average volatility of its actual historical volatility over a period equal to the expected remaining life of the awards.

The expected term represents the period of time that awards granted are expected to be outstanding. Through December 31, 2017, the Company calculated the expected term using a weighted-average term based on historical exercise patterns and the term from option date to full exercise for the options granted within the specified date range.

The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award.

The assumed dividend yield is based on the Company's expectation of not paying dividends in the foreseeable future. The Company used historical data to estimate the number of future stock option forfeitures. Stock-based compensation recorded in the Company's consolidated statement of operations is based on awards expected to ultimately vest and has been reduced for estimated forfeitures. The Company's estimated forfeiture rates may differ from its actual forfeitures which would affect the amount of expense recognized during the period.

The Company accounts for stock option grants to non-employees in accordance with provisions which require that the non-employee awards are remeasured at each reporting period end and fair value of these instruments be recognized as an expense over the period in which the related services are rendered.

Stock-based compensation expense of awards with performance conditions is recognized over the period from the date the performance condition is determined to be probable of occurring through the time the applicable condition is met. Determining the likelihood and timing of achieving performance conditions is a subjective judgment made by management which may affect the amount and timing of expense related to these share-based awards. Share-based compensation is adjusted to reflect the value of options which ultimately vest as such amounts become known in future periods.

Stock-based awards with market conditions are valued using the Monte Carlo valuation technique which requires management to make significant estimates and assumptions that are not observable from the market. Stock based compensation for awards with both service and market conditions are recognized on a straight line basis over the longer of the derived service period or the requisite service period.

#### Valuation of Stock Option Awards

The assumptions used to compute the stock-based compensation costs for the stock options granted during the years ended December 31, 2017 and 2016 are as follows:

	Year Ended	
	December 31,	
	2017	2016
Risk-free interest rate	2.01 %	1.78 %
Expected dividend yield	—	—
Weighted average expected life (years)	6.02	5.69
Volatility	79 %	78 %

#### Stock-Based Compensation Costs

The compensation cost that has been included in the Company's consolidated statement of operations for all stock-based compensation arrangements is detailed as follows (in thousands):

	Year Ended	
	December 31,	
	2017	2016
Cost of revenues	\$40	\$36
Research and development	127	438
Sales and marketing	480	258
General and administrative	3,255	894
Total	\$3,902	\$1,626

The amounts provided above include stock-based compensation expense of \$0.1 million and \$0.2 million during the years ended December 31, 2017 and 2016, respectively, related to the vesting of stock options and awards granted to non-employees under consulting agreements.

#### Income Taxes

The Company accounts for income taxes in accordance with provisions which set forth an asset and liability approach that requires the recognition of deferred tax assets and deferred tax liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. In making such determination, a review of all available positive and negative evidence must be considered, including scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision.

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## 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, as adjusted for the 1-for-12 reverse stock split, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income or loss 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, as adjusted for the 1-for-12 reverse stock split. For purposes of this calculation, common stock subject to repurchase by the Company, common stock issuable upon conversion of preferred shares, 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.

The following table sets forth the computation of basic and diluted loss per share, as adjusted for the 1-for-12 reverse stock split (in thousands, except per share data):

	Year Ended December 31,			
	2017		2016	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
<b>Numerator:</b>				
Net (loss) income, basic	\$(4,540 )	\$ 2,246	\$(26,301 )	\$(3,624 )
Change in fair value of warrants	\$12,044	\$ -	\$-	\$ -
Net (loss) income, diluted	\$(16,584)	\$ 2,246	\$(26,301 )	\$(3,624 )
<b>Denominator:</b>				
Weighted average common shares outstanding	12,827	12,827	8,646	8,646
Weighted average unvested common shares subject to repurchase	(39 )	(39 )	(64 )	(64 )
Weighted average common shares outstanding - basic	12,788	12,788	8,582	8,582
Dilutive impact of warrants	494	494	—	—
Weighted average common shares outstanding - diluted	13,282	13,282	8,582	8,582
Basic net (loss) income per share	\$(0.36 )	\$ 0.18	\$(3.06 )	\$(0.42 )
Diluted net (loss) income per share	\$(1.25 )	\$ 0.17	\$(3.06 )	\$(0.42 )

The anti-dilutive securities not included in diluted net loss per share were as follows, as adjusted for the 1-for-12 reverse stock split (in thousands):

	Year Ended December 31,	
	2017	2016
Options to purchase common stock	3,156	604
Warrants to purchase common stock	1,204	8
Series A convertible preferred stock	3,829	—

Unvested restricted stock awards	39	177
	8,228	789

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance related to revenue recognition. This new standard replaces all current U.S. GAAP guidance on this topic and eliminates 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 for which the entity expects to be entitled in exchange for those goods or services. This guidance, including all subsequent clarifications, is effective for the Company for annual and interim reporting periods in fiscal years beginning after December 15, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company performed an assessment of the impact of the new standard on the consolidated financial statements, and considered all items outlined in the standard. In assessing the impact, the Company has outlined all revenue generating activities, mapped those activities to performance obligations and traced those performance obligations to the standard. The Company assessed the potential impact the change in standard will have on those performance obligations. Based on the Company’s assessment, the overall impact of adoption of the new revenue recognition standard is expected to be immaterial. The Company expects to adoption the standard using the modified retrospective approach where then impact of adoption, if material, will be recorded as a cumulative catch up entry to the beginning retained earnings balance as of January 1, 2018, the date of adoption.

In July 2015, the FASB issued new accounting guidance, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value for entities that do not measure inventory using the last-in, first-out or retail inventory method. The guidance also eliminates the requirement for these entities to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The guidance was effective for the Company for annual and interim reporting periods in fiscal years beginning after December 15, 2016. The adoption, effective January 1, 2017, did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued new accounting guidance, which changes several aspects of the accounting for leases, including the requirement that all leases with durations greater than twelve months be recognized on the balance sheet. The guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2018. The Company is evaluating the impact of adopting this new accounting standard on its consolidated financial statements.

In March 2016, the FASB issued new accounting guidance, which changes several aspects of the accounting for share-based payment award transactions, including accounting and cash flow classification for excess tax benefits and deficiencies, forfeitures, and tax withholding requirements and cash flow classification. The guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2016. The Company adopted the standard for reporting periods beginning January 1, 2017. The Company elected to keep its policy consistent for the application of a forfeiture rate and, therefore, the adoption of the guidance did not have a material impact on its consolidated financial statements.

In August 2016, the FASB issued new accounting guidance, which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. The guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. The Company is evaluating the new guidance and has not determined the impact this standards update may have on its consolidated financial statements.

In January 2017, the FASB issued new accounting guidance, which was created to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance provides a screen to determine whether an integrated set of assets and activities is a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The guidance is effective for annual and interim reporting periods in fiscal years beginning after December 15, 2017. The Company is in the process of evaluating the impact of this guidance on the Company's consolidated financial statements in connection with the acquisition of SafeOp (Note 14).

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation, to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718 to a change in the terms or conditions of a share-based payment award. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. The amendments in ASU 2017-09 are effective for fiscal and interim reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The Company does not anticipate that the adoption of ASU 2017-09 will have a material impact on its consolidated financial statements unless a transaction occurs that would need to be evaluated under this guidance at which time the Company will assess the impact of this standard.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception. The ASU allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity's own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be classified as liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, such as warrants, an entity will treat the value of the effect of the down round, when triggered, as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. The guidance in ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. The Company does not anticipate that the adoption of ASU 2017-11 will have a material impact on its consolidated financial statements unless a



transaction occurs that would need to be evaluated under this guidance at which time the Company will assess the impact of this standard.

### 3. Balance Sheet Details

Accounts Receivable, net

Accounts receivable consist of the following (in thousands):

	December 31,	
	2017	2016
Accounts receivable	\$15,328	\$19,870
Less allowance for doubtful accounts	(506 )	(1,358 )
Accounts receivables, net	\$14,822	\$18,512

Inventories, net

Inventories consist of the following (in thousands):

	December 31,	
	2017	2016
Raw materials	\$4,969	\$7,301
Work-in-process	502	823
Finished goods	37,933	38,469
	43,404	46,593
Less reserve for excess and obsolete finished goods	(16,112)	(16,500)
Inventories, net	\$27,292	\$30,093

Property and Equipment, net

Property and equipment consist of the following (in thousands except for useful lives):

	Useful lives	December 31,	
	(in years)	2017	2016
Surgical instruments	4	\$53,198	\$53,095
Machinery and equipment	7	5,503	5,435
Computer equipment	3	3,500	3,511
Office furniture and equipment	5	2,794	2,695
Leasehold improvements	various	1,714	3,467

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Construction in progress	n/a	336	445
		67,045	68,648
Less accumulated depreciation and amortization		(54,375)	(53,572)
Property and equipment, net		\$12,670	\$15,076

Total depreciation expense was \$6.6 million and \$7.4 million for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, assets recorded under capital leases of \$2.1 million were included in the machinery and equipment balance. Amortization of assets under capital leases is included in depreciation expense.

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## Intangible Assets

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

	Remaining	Avg.	
	Useful lives	December 31,	
	(in years)	2017	2016
Developed product technology	—	\$13,876	\$13,876
Intellectual property	—	1,004	1,004
License agreements	2	5,738	5,265
Trademarks and trade names	—	732	732
Customer-related	8	7,458	7,458
Distribution network	8	4,027	4,027
		32,835	32,362
Less accumulated amortization		(27,587)	(26,651)
Intangible assets, net		\$5,248	\$5,711

Total expense related to amortization of intangible assets was \$0.9 million and \$1.6 million for the years ended December 31, 2017 and 2016, respectively.

In connection with the sale of the International Business (see Note 4), the Company determined that certain intangible assets related to the Company's previous acquisition of Scient'x, including customer relationships, distribution network and key product tradename intangible assets, no longer had a business purpose and no cash flows associated with these assets are expected in the future. As a result, the Company recorded \$1.7 million as intangible impairment expense during the year ended December 31, 2016. Prior to the impairment, amortization of these intangible assets had been recorded in amortization of acquired intangible assets within operating expenses.

During 2016, due to revised marketing strategies for an interbody fusion device, the Company evaluated the related intangible asset for impairment. As a result of this impairment analysis, the Company expensed \$0.5 million as an impairment charge in cost of goods sold in 2016 for the write-off of intangible asset related to this product.

The future expected amortization expense related to intangible assets as of December 31, 2017 is as follows (in thousands):

Year Ending December 31,	
2018	\$801
2019	757
2020	756
2021	756
2022	756
Thereafter	1,422

Total	\$5,248
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## Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31,	
	2017	2016
Commissions and sales milestones	\$3,360	\$4,202
Payroll and payroll related	2,968	2,384
Litigation settlements	4,400	4,400
Globus related accruals	—	3,830
Accrued professional fees	1,484	3,093
Royalties	1,269	1,347
Restructuring and severance accruals	520	1,328
Accrued taxes	246	404
Guaranteed collaboration compensation, current	4,485	2,228
Accrued interest	376	387
Other	3,138	3,986
Total accrued expenses	\$22,246	\$27,589

## 4. Discontinued Operations

At the closing of the Globus Transaction, Globus paid the Company \$80 million in cash. On September 1, 2016, the Company used approximately \$66 million of the consideration received to (i) repay in full all amounts outstanding and due under the Company's Deerfield Facility Agreement and (ii) repay certain of its outstanding indebtedness under the Company's Amended Credit Facility with MidCap (described in Note 5 below), in each case, including debt-related costs. Also on September 1, 2016, the Company entered into a five-year term credit, security and guaranty agreement with Globus (the "Globus Facility Agreement"), as further described in Note 5, pursuant to which Globus agreed to loan the Company up to \$30 million, subject to the terms and conditions set forth in the Globus Facility Agreement.

The following table summarizes the calculation of the gain on sale (in thousands). The Company recorded an adjustment of \$104,000 to the purchase price accounting during November 2016.

Consideration received	\$80,000
Cash included in assets sold	(4,250 )
Transaction costs	(5,960 )
Net cash proceeds	69,790
Less:	
Product supply obligation	(1,927 )
Working capital adjustment	(2,295 )
Carrying value of business and assets sold	(57,633)
Net gain on sale of business	\$7,935

The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the International Business. The allocations do not include

amounts related to general corporate administrative expenses. Therefore, the results of operations from the International Business do not necessarily reflect what the results of operations would have been had the International Business operated as a stand-alone entity.

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In connection with the Globus Transaction, the Company entered into a product manufacture and supply agreement (the "Supply Agreement") with Globus, pursuant to which the Company agreed to supply to Globus certain of its implants and instruments (the "Products"), previously offered for sale by the Company in international markets at agreed-upon prices for a minimum term of three years, with the option for Globus to extend the term for up to two additional twelve month periods subject to Globus meeting specified purchase requirements. In accordance with authoritative guidance, certain intercompany sales transactions have been reported under continuing operations as the Company will have continuing involvement due to future sales to Globus under the Supply Agreement. In connection with the Globus Transaction, Globus received, and fully utilized in 2017, a credit of up to a \$2.2 million to be applied against product purchases pursuant to the Supply Agreement during a six-month period commencing one month after the closing of the Globus Transaction, which has been included as a reduction of the consideration received for the sale of the International Business and was recognized as revenue upon fulfillment by the Company of product purchases by Globus.

The agreements entered into concurrently with the sale of the International Business, including the Transition Services Agreement and the Supply Agreement, contain various elements and, as such, are deemed to be an arrangement with multiple deliverables as defined under authoritative accounting guidance (see Note 2). Several non-contingent deliverables were identified within the agreements. The Company identified the International Business, contract supply services, transition services and the Globus Facility as separate non-contingent deliverables within the arrangement. The Company determined the estimated selling price (fair value) for each of the non-contingent deliverables on a standalone basis by utilizing relevant market data and entity-specific factors. Based on the respective standalone fair values of the deliverables, there was no discount to allocate among the deliverables and the consideration received for each deliverable approximated standalone fair value. As such, none of the purchase consideration was allocated to these elements.

Included in the results of continuing operations for the years ended December 31, 2017 and 2016 are revenues of \$0 and \$10.3 million, respectively, and cost of revenue of \$0 million, \$8.9 million, respectively, that represent intercompany transactions that, prior to the Globus Transaction, were eliminated in the Company's consolidated financial statements.

During the year ended December 31, 2017, the Company recorded \$14.4 million in revenue and \$12.1 million in cost of sales from the Supply Agreement that are included in the continuing operations. During the year ended December 31, 2016, the Company recorded \$2.6 million in revenue and \$2.3 million in cost of sales from the Supply Agreement that are included in the continuing operations.

In connection with the Globus Transaction, the Company included interest expense of \$7.0 million for the year ended December 31, 2016, under the Deerfield Facility Agreement and Amended Credit Facility (as further described in Note 5) in net loss from discontinued operations to the extent these debt facilities were repaid using the proceeds from the Globus Transaction.

The following table summarizes the results of discontinued operations for the periods presented in the consolidated statements of operations for the years ended December 31, 2017 and 2016 (in thousands):

	Years ended December 31,	
	2017	2016
Discontinued operations		
Revenues	\$—	\$40,130
Cost of revenues	—	19,381
Amortization of acquired intangible assets	—	1,291
Gross profit	—	19,458
Operating (income) expenses:		
Research and development	—	51
Sales and marketing	—	12,980
General and administrative	271	4,846
Amortization of intangible assets	—	622
Restructuring expenses	—	794
Net gain on sale of business	—	(7,935 )
Total operating expenses	271	11,358
Operating (loss) income	(271 )	8,100
Other income (expense):		
Interest expense, net	—	(6,959 )
Other income, net	7	1,883
Total other income (expense)	7	(5,076 )
(Loss) income from discontinued operations before taxes	(264 )	3,024
Income tax (benefit) provision	(2,510)	6,648
Income (loss) from discontinued operations, net of applicable taxes	\$2,246	\$(3,624 )

The following table summarizes the assets and liabilities of discontinued operations as of December 31, 2017 and 2016 related to the International Business (in thousands):

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash	\$ 127	\$ 159
Inventories, net	—	48
Prepaid expenses and other current assets	4	157
Total current assets of discontinued operations	131	364
Other assets	56	61
Total assets of discontinued operations	\$ 187	\$ 425
Liabilities		
Current liabilities:		



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Accounts payable	\$ 0	\$ 43
Accrued expenses	312	689
Total current liabilities of discontinued operations	312	732
Total liabilities of discontinued operations	\$ 312	\$ 732

Included in the statements of cash flows for the year ended December 31, 2017 and 2016 are the following capital expenditures and non-cash adjustments related to the discontinued operations (in thousands):

	Year ended December 31, 2017	2016
Depreciation and amortization	\$—	\$3,836
Provision for excess and obsolete inventory	\$—	\$151
Capital expenditures	\$—	\$1,319
Interest expense related to amortization of debt discount and debt issuance costs		\$—
		\$2,052

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## 5. Debt

### MidCap Facility Agreement

On August 30, 2013, the Company entered into the Amended Credit Facility, which amended and restated the prior credit facility that we had with MidCap. On September 1, 2016, we entered into a Fifth Amendment to the MidCap Amended Facility Agreement, or the MidCap Fifth Amendment, that: (a) permitted (i) the Globus Transaction, (ii) the release of Alphatec International LLC and Alphatec Pacific, Inc. as credit parties, (iii) the payment in full of all obligations to Deerfield under the Facility Agreement between us and Deerfield, dated as of March 17, 2014, as amended to date, or the Deerfield Facility Agreement, and (iv) the incurrence of debt under the Globus Facility Agreement and the granting of liens in favor of Globus, (b) reduced the revolving credit commitment to \$22.5 million and the term loan commitment to \$5 million, and (c) revised the existing financial covenant package, and (d) extended the commitment expiry date from December 31, 2016 to December 31, 2019. In connection with the prepayment of the term loan under the Amended Credit Facility, the Company incurred a prepayment fee of \$0.6 million payable to MidCap.

On March 30, 2017, we entered into a Sixth Amendment to the Amended Credit Facility to extend the date that the financial covenants of the Amended Credit Facility are effective from April 2017 to April 2018. On March 8, 2018, the Company entered into a Seventh Amendment to the Amended Credit Facility to extend the date that the financial covenants of the Amended Credit Facility are effective from April 2018 to April 2019, and established a minimum liquidity covenant of \$5.0 million effective through March 2019.

As of December 31, 2017, \$10.3 million was outstanding under the revolving line of credit and \$2.4 million was outstanding under the term loan.

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 December 31, 2017, the revolving line of credit carried an interest rate of 7.36% 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. 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 \$0.2 million in 2017 and \$0.3 million in 2018 through maturity are due, with the remaining principal due upon maturity. At December 31, 2017, \$1.2 million remains as unamortized debt discount related to the Amended Credit Facility within the 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 liquidity calculation and a fixed charge coverage ratio to be maintained by the Company. The Amended Credit Facility also includes several event of default provisions, such as payment default, insolvency conditions and a material adverse effect clause, 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. The financial covenants of the Amended Credit Facility are not effective until April 2019 (See Note 14). There is no assurance that the Company will be in compliance with the financial covenants of the Amended Credit

Facility in the future.

#### Globus Facility Agreement

On September 1, 2016, the Company and Globus entered into the Globus Facility Agreement, pursuant to which Globus agreed to loan the Company up to \$30 million, subject to the terms and conditions set forth in the Globus Facility Agreement. At the closing of the Globus Transaction, the Company made an initial draw of \$25 million under the Globus Facility Agreement with an additional draw of \$5 million made in the fourth quarter of 2016. As of December 31, 2017, the outstanding balance under the Globus Facility Agreement was \$30.0 million, which becomes due and payable in quarterly payments of \$0.8 million starting in September 2018, with a final payment of the remaining amount outstanding due on September 1, 2021. The term loan interest rate is priced at LIBOR plus 8.0% through September 1, 2018, and LIBOR plus 13.0%, thereafter. At December 31, 2017, unamortized debt discount related to the Globus Facility Agreement within the consolidated balance sheet was \$0.8 million, which will be amortized over the remaining term of the Globus Facility Agreement.

As collateral for the Globus Facility Agreement, the Company granted Globus a first lien security interest in substantially all of its assets, other than accounts receivable and related assets, which will secure the Globus Facility Agreement on a second lien basis. The Globus Facility Agreement includes traditional lending and reporting covenants including a liquidity calculation and a fixed charge coverage ratio to be maintained by the Company that are consistent with the covenants under the Amended Credit Facility. The financial covenants of the Globus Facility Agreement are not effective until April 2019 (See Note 14). Although the Company was in compliance with the financial covenants in 2017, there is no assurance that the Company will be in compliance with the financial

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covenants of the Globus Facility Agreement in the future. The Globus Facility Agreement also includes several event of default provisions, such as payment default, insolvency conditions and a material adverse effect clause, 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 Globus's right to declare all outstanding obligations immediately due and payable.

On March 8, 2018, the Company entered into a Second Amendment to the Globus Facility Agreement to extend the date that the financial covenants of the Globus Facility Agreement are effective from April 2018 to April 2019, and established a minimum liquidity covenant of \$5.0 million effective through March 2019.

#### Deerfield Facility Agreement

On March 17, 2014, the Company entered into the Deerfield Facility Agreement, pursuant to which Deerfield agreed to loan the Company up to \$50 million, subject to the terms and conditions set forth in the Deerfield Facility Agreement. Under the terms of the Deerfield Facility Agreement, the Company had the option, but was not required, upon certain conditions to draw the entire amount available under the Deerfield Facility Agreement, at any time until January 30, 2015, 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.

In connection with the execution of the Deerfield Facility Agreement on March 17, 2014, the Company issued to Deerfield warrants to purchase an aggregate of 520,833 shares of the Company's common stock, which are immediately exercisable and have an exercise price equal to \$16.68 per share (the "Initial Warrants"). Additionally, the Company agreed that each disbursement borrowing under the Deerfield Facility Agreement be accompanied by the issuance to Deerfield of warrants to purchase up to 833,333 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 Deerfield 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. On November 21, 2014, the Company made a second draw of \$6.0 million under the Deerfield Facility Agreement and received net proceeds of \$5.9 million to fund a portion of the Orthotec settlement payments due through 2016.

In February 5, 2016, the Company entered into a Limited Waiver and Second Amendment to the Deerfield Facility Agreement (the "Deerfield Facility Agreement Second Amendment") with Deerfield. The Deerfield Facility Agreement Second Amendment increased the interest rate under the Facility Agreement from 8.75% per annum to 14.75% per annum. The Deerfield Facility Agreement Second Amendment also changed the date from March 31, 2017 to March 31, 2018. The Second Amendment also contained a waiver of the defaults under the Deerfield Facility Agreement for the fixed charge coverage ratio for the month of January 2016.

In September 2016, in connection with the Globus Transaction, Deerfield exercised its right to convert all outstanding Initial Warrants and Draw Warrants into shares of the Company's common stock based on the Black-Scholes value of the warrants. The outstanding warrants were converted into 268,614 shares of the Company's common stock valued at \$1.1 million.

On September 1, 2016, in connection with the Globus Transaction, the Company repaid in full all amounts outstanding and due under the Deerfield Facility Agreement and terminated the Deerfield Facility Agreement. Pursuant to the Globus Facility Agreement and the MidCap Fifth Amendment, the Company made a final payment of \$33.5 million to Deerfield, consisting of outstanding principal and accrued interest of \$27.9 million, a prepayment premium of \$5.6 million and other related fees and wrote-off \$3.9 million of unamortized expenses resulting in a loss

on debt extinguishment of \$9.5 million.

#### Other Debt Agreements

The Company has various capital lease arrangements. The leases bear annual interest at rates ranging from 6.8% to 9.6%, are generally due in monthly principal and interest installments, are collateralized by the related equipment, and have various maturity dates through December 2022.

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Long-term debt consists of the following (in thousands):

	December 31,	
	2017	2016
Amended Credit Facility with MidCap	\$12,674	\$17,873
Globus Facility Agreement	30,000	30,000
Notes payable	200	1,395
Total	42,874	49,268
Add: capital leases (See Note 7)	222	480
Less: debt discount	(2,023 )	(3,543 )
Total	41,073	46,205
Less: current portion of long-term debt	(3,306 )	(3,113 )
Total long-term debt, net of current portion	\$37,767	\$43,092

Principal payments on debt are as follows as of December 31, 2017 (in thousands):

Year Ending December 31,	
2018	\$4,109
2019	3,423
2020	13,675
2021	21,667
Total	42,874
Add: capital lease principal payments	222
Less: debt discount	(2,023 )
Total	41,073
Less: current portion of long-term debt	(3,306 )
Long-term debt, net of current portion	\$37,767

## 6. Commitments and Contingencies

### Leases

In February 2008, the Company entered into a sublease agreement for office, engineering, and research and development space in Carlsbad, California. The Sublease term commenced May 2008 and ended on January 31, 2016. In January 2016, the Company entered into a new lease agreement (the "Building Lease") for the same property with the lease term through July 31, 2021. Under the new Building Lease the Company's monthly rent payable is approximately \$105,000 per month during the first year and increases by approximately \$3,000 per month each year thereafter.

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The Company also leases certain equipment and vehicles under operating leases which expire on various dates through 2018, and certain equipment under capital leases which expire on various dates through 2022.

Future minimum annual lease payments under the Company's operating and capital leases are as follows (in thousands):

Year ending December 31,	Operating	Capital
2018	\$ 1,679	\$ 105
2019	1,583	37
2020	1,624	37
2021	993	37
2022	—	37
	5,879	253
Less: amount representing interest		(31 )
Present value of minimum lease payments		222
Current portion of capital leases		(93 )
Capital leases, less current portion		\$ 129

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Rent expense under operating leases for the years ended December 31, 2017 and 2016 was \$1.3 million and \$2.1 million, respectively.

#### Litigation

The Company is and may become involved in various legal proceedings arising from its business activities. While management is not aware of any litigation matter that in and of itself would 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 a proceeding, 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 the Company may be unsupported, exaggerated or unrelated to reasonably possible outcomes, and as such are not meaningful indicators of the Company's potential liability.

As more fully described in Note 14, on February 15, 2018, NuVasive, Inc. filed suit against the Company in the United States District Court for the Southern District of California, alleging that certain of the Company's products infringe, or contribute to the infringement of several NuVasive's patents. The case is in the very early stages of proceedings, with an order establishing a schedule for the case expected within the next few months. As of the date of this Annual Report on Form 10-K, the probability of an outcome cannot be reasonably determined, nor can the Company reasonably estimate a potential loss; therefore, in accordance with Accounting Standards Codification 450, Contingencies, the Company has not recorded an accrual related to this litigation.

#### Indemnifications

In the normal course of business, the Company enters into agreements under which it occasionally indemnifies third-parties for intellectual property infringement claims or claims arising from breaches of representations or warranties. In addition, from time to time, the Company provides indemnity protection to third-parties for claims relating to past performance arising from undisclosed liabilities, product liabilities, environmental obligations, representations and warranties, and other claims. In these agreements, the scope and amount of remedy, or the period in which claims can be made, may be limited. It is not possible to determine the maximum potential amount of future payments, if any, due under these indemnities due to the conditional nature of the obligations and the unique facts and circumstances involved in each agreement.

In October 2017, a competitor of the Company filed a lawsuit against Mr. Miles, the Company's executive chairman who was a former employee of this competitor. The Company itself was not a named defendant in this lawsuit. However, the Company agreed to indemnify Mr. Miles in connection with this lawsuit, and recorded an expense of \$0.1 million during the year ended December 31, 2017. As of December 31, 2017, the Company did not record any liability in the consolidated balance sheet related to this matter.



## 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 based on fixed fees or calculated either as a percentage of net sales or in one instance on a per-unit sold basis. Royalties are included on the accompanying consolidated statements of operations as a component of cost of revenues. As of December 31, 2017, the Company is obligated to pay guaranteed minimum royalty payments under these agreements of approximately \$6.5 million through 2022 and beyond.

## 7. Orthotec Settlement

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"). Pursuant to the Settlement Agreement, the Company agreed to pay Orthotec, LLC \$49.0 million in cash, including initial cash payments totaling

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\$17.5 million, which the Company previously paid in 2014. The Company agreed to pay the remaining \$31.5 million in 28 quarterly installments of \$1.1 million and one additional quarterly installment of \$0.7 million, commencing October 1, 2014. In September 2014, the Company and HealthpointCapital entered into an agreement for joint payment of settlement whereby HealthpointCapital has agreed to contribute \$5 million to the \$49 million settlement amount.

As of December 31, 2017, the Company has made installment payments in the aggregate of \$31.8 million, with a remaining unpaid balance of \$26.0 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 Settlement Agreement 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.

## 8. Equity

### Redeemable preferred stock

The Company issued shares of redeemable preferred stock in connection with its initial public offering in June 2006. As of December 31, 2017 and 2016, the redeemable preferred stock carrying value was \$23.6 million and there were 20 million shares of redeemable preferred stock authorized. The redeemable preferred stock is not convertible into common stock but is redeemable at \$9.00 per share, (i) upon the Company's liquidation, dissolution or winding up, or the occurrence of certain mergers, consolidations or sales of all or substantially all of the Company's assets, before any payment to the holders of the Company's common stock, or (ii) at the Company's option at any time. Holders of redeemable preferred stock are generally not entitled to vote on matters submitted to the stockholders, except with respect to certain matters that will affect them adversely as a class, and are not entitled to receive dividends. The carrying value of the redeemable preferred stock was \$7.11 per share at December 31, 2017 and 2016. The redeemable preferred stock is presented separately from stockholders' deficit in the consolidated balance sheets and any adjustments to its carrying value up to its redemption value of \$9.00 per share will be reported as a dividend.

### Series A Convertible Preferred Stock

On March 22, 2017, the Company entered into the Securities Purchase Agreement with certain institutional and accredited investors, including certain directors, executive officers and employees of the Company (collectively, the "Purchasers"), providing for the sale by the Company of 1,809,628 shares of the Company's common stock at a purchase price of \$2.00 per share (the "Common Shares"), 15,245 shares of newly designated Series A Convertible Preferred Stock at a purchase price of \$1,000 per share (which shares are convertible into approximately 7,622,372 shares of common stock, and were initially subject to limitations on conversion prior to the approval by the Company's stockholders ("Stockholder Approval") as required in accordance with the NASDAQ listing rules), and warrants to purchase up to 9,432,000 shares of the Company's common stock at an exercise price of \$2.00 per share (the "Purchaser Warrants"), in a private placement (the "Private Placement"). The Purchaser Warrants became exercisable following Stockholder Approval, are subject to certain ownership limitations, and expire five years after June 15, 2017, the date Stockholder Approval was received.

The following table sets forth the Series A Convertible Preferred Stock converted and outstanding, and the number of common shares issued and issuable upon the conversion of the Series A Convertible Preferred Stock, as of December 31, 2017:

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	Series A Convertible Preferred Stock	Converted to Common Shares	Series A Convertible Preferred Stock Outstanding	Number of Common Shares Issued Pursuant to Conversion of Series A Convertible Preferred Stock	Number of Common Shares Issuable Pursuant to Series A Convertible Stock Outstanding
Directors and Officers	3,561	(2,537 )	1,024	1,268,499	511,997
Others	11,684	(7,391 )	4,293	3,695,203	2,146,673
Total	15,245	(9,928 )	5,317	4,963,702	2,658,670

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The Company also entered into an engagement letter (the “Engagement Letter”) on March 1, 2017 with H.C. Wainwright & Co., LLC (“Wainwright”), pursuant to which Wainwright agreed to serve as exclusive placement agent for the issuance and sale of the securities in the Private Placement. Pursuant to the Engagement Letter, the Company issued to Wainwright and its designees warrants to purchase up to an aggregate of 471,600 shares of the Company’s common stock (the “Wainwright Warrants,” and together with the Purchaser Warrants, the “Common Stock Warrants”). The Wainwright Warrants have substantially the same terms as the Purchaser Warrants, except that the Wainwright Warrants have an exercise price equal \$2.50 per share. The Private Placement, including the issuance of the Wainwright Warrants, closed on March 29, 2017, with aggregate gross proceeds to the Company of approximately \$18.9 million.

On March 29, 2017, in connection with the closing of the Private Placement, the Company filed a Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock with the Secretary of State of the State of Delaware (the “Certificate of Designation”). The shares of Series A Convertible Preferred Stock have a stated value of \$1,000 per share and were convertible into approximately 500 shares of common stock upon receipt of Stockholder Approval. Prior to the date that Stockholder Approval was obtained, the Certificate of Designation limited the number of shares of common stock that were issuable upon conversion of the Series A Convertible Preferred Stock such that, when aggregated with the shares of common stock issued in the Private Placement, such issuances did not exceed 19.99% of the Company’s issued and outstanding common stock, as required by NASDAQ listing rules. In addition, the Company’s directors, executive officers and employees who participated in the Private Placement were unable to convert shares of Series A Convertible Preferred Stock until Stockholder Approval was obtained, pursuant to the NASDAQ listing rules. The Series A Convertible Preferred Stock will be entitled to dividends on an as-if-converted basis in the same form as any dividends actually paid on shares of common stock or other securities. Except as otherwise required by law, the holders of Series A Convertible Preferred Stock will have no right to vote on matters submitted to a vote of the Company’s stockholders. Without the prior written consent of 75% of the outstanding shares of Series A Convertible Preferred Stock, the Company may not: (a) alter or change adversely the powers, preferences or rights given to the Series A Convertible Preferred Stock or alter or amend the Certificate of Designation, (b) amend the Company’s certificate of incorporation or other charter documents in any manner that adversely affects any rights of the holders of Series A Convertible Preferred Stock, (c) increase the number of authorized shares of Series A Convertible Preferred Stock, or (d) enter into any agreement with respect to any of the foregoing. In the event of the dissolution and winding up of the Company, the proceeds available for distribution to the Company’s stockholders shall be distributed pari passu among the holders of the shares of common stock and Series A Convertible Preferred Stock, pro rata based upon the number of shares held by each such holder, as if the outstanding shares of Series A Convertible Preferred Stock were convertible, and were converted, into shares of common stock.

#### Common Stock Warrants

The Common Stock Warrants are exercisable for cash or, solely, if at any time after the six-month anniversary of the closing date of the Private Placement, there is not an effective registration statement or prospectus registering the issuance of shares of the Company’s common stock upon exercise of the Common Stock Warrants, by cashless exercise. The exercise price of the Common Stock Warrants is subject to adjustment in the case of stock dividends or other distributions on shares of common stock or any other equity or equity equivalent securities payable in shares of common stock, stock splits, stock combinations, reclassifications or similar events affecting the Company’s common stock, and also, subject to limitations, upon any distribution of assets, including cash, stock or other property to the Company’s stockholders.

Prior to the exercise, holders of the Common Stock Warrants will not have any of the rights of holders of the common stock purchasable upon exercise, including voting rights; however, the holders of the Common Stock Warrants will have certain rights to participate in distributions or dividends paid on the Company’s common stock to the extent set

forth in the Common Stock Warrants.

The Common Stock Warrants may not be exercised by the holder to the extent that the holder, together with its affiliates, would beneficially own, after such exercise more than 4.99% of the shares of the Company's common stock then outstanding (subject to the right of the holder to increase or decrease such beneficial ownership limitation upon notice to us, provided that such limitation cannot exceed 9.99%) and provided that any increase in the beneficial ownership limitation shall not be effective until 61 days after such notice is delivered.

If the Company effects a fundamental transaction, then upon any subsequent exercise of any Common Stock Warrants, the holder thereof shall have the right to receive, for each share of common stock that would have been issuable upon such exercise immediately prior to the occurrence of such fundamental transaction, the number of shares of the successor's or acquiring corporation's common stock or of the Company's common stock, if the Company is the surviving corporation, and any additional consideration receivable as a result of such fundamental transaction by a holder of the number of shares of common stock into which the Common Stock Warrants were exercisable immediately prior to such fundamental transaction. In addition, in the event of a fundamental transaction (other than a fundamental transaction not approved by the Company's Board of Directors), the Company or any successor entity shall, at the holder's option, purchase the holder's Common Stock Warrants for an amount of cash equal to the value of the Common Stock Warrants as determined in accordance with the Black Scholes option pricing model. A fundamental transaction as described in the Common Stock Warrants generally includes any merger with or into another entity, sale of all or substantially all of the Company's assets, tender offer or exchange offer, reclassification of the Company's common stock or the consummation of a transaction whereby another entity acquires more than 50% of the Company's outstanding voting stock.

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Based on the terms of the Common Stock Warrants, the Company may be required to settle such warrants with cash upon a fundamental transaction, as defined. Through October 19, 2017, the holders of Common Stock Warrants did not control the Company's Board of Directors, and therefore, since potential future cash settlement was deemed to be within the Company's control, the Common Stock Warrants were classified in stockholders' equity in accordance with the authoritative accounting guidance. Effective with the appointment of Ward W. Woods (a holder of Common Stock Warrants) to the Company's board of directors on October 17, 2017, the holders of Common Stock Warrants now represent a majority of the Board of Directors. As a result of this change, the Company was required to re-classify the warrants as a liability in accordance with the authoritative accounting guidance. On December 29, 2017, two board members who are holders of Common Stock Warrants entered into recusal agreements, pursuant to which they agreed to abstain from voting on any fundamental transaction so long as their Common Stock Warrants are outstanding. Consequently, the Common Stock Warrants were classified back into the equity section of the consolidated balance sheet as of December 29, 2017. The Company recognized a gain of \$12.0 million, representing the reduction of the fair value of the Common Stock Warrants from October 20, 2017 to December 28, 2017, the period for which the Common Stock warrants were classified as a liability on the consolidated balance sheet.

During 2017, the Company received proceeds of approximately \$3.3 million in connection with the exercise of approximately 1.7 million of Common Stock Warrants.

#### December Private Placement

On October 2, 2017, the Company entered into Securities Purchase Agreements (collectively, the "Purchase Agreements") with accredited investors Patrick Miles and Quentin Blackford (collectively, the "Purchasers"), pursuant to which Messrs. Miles and Blackford have agreed, subject to the satisfaction of customary closing conditions under the Purchase Agreements, to purchase from the Company, collectively, no less than 1,549,116 and as many as 1,769,912 shares of its common stock at a purchase price of \$2.26 per share. On December 28, 2017, the Purchase Agreements were executed and the Company issued 1,769,912 shares and warrants to purchase 1,327,434 shares of the Company's common stock for \$5 per share, for total proceeds of \$4 million, out of which \$300,000 was received in January 2018.

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

In 2005, the Company adopted its 2005 Employee, Director, and Consultant Stock Plan (the "2005 Plan"). The 2005 Plan expired in April 2016. As of December 31, 2017, there were 0 shares issuable under the 2005 Plan.

In the third quarter of 2016, the Company adopted its 2016 Equity Incentive Plan (the "2016 Plan"), which replaced the 2005 Plan. The 2016 Plan allows for the grant of options, restricted stock, restricted stock unit awards and performance unit awards to employees, directors, and consultants of the Company. Upon its adoption, the 2016 Plan had 1,083,333 shares of common stock reserved for issuance. The Board of Directors determines the terms of the grants made under the 2016 Plan. Options granted under the 2016 Plan expire no later than ten years from the date of grant (five years for incentive stock options granted to holders of more than 10% of the Company's voting stock). Options generally vest over a four year period and may be immediately exercisable upon a change of control of the Company. The exercise price of incentive stock options may not be less than 100% of the fair value of the Company's common stock on the date of grant. The exercise price of any option granted to a 10% stockholder may be no less than 110% of the fair value of the Company's common stock on the date of grant. At December 31, 2017, 449,901 shares of common stock remained available for issuance under the 2016 Plan. The 2016 Plan will expire in May 2026.

On October 4, 2016, the Company's Board of Directors adopted the 2016 Employment Inducement Award Plan (the "Inducement Plan"). The Inducement Plan allows for the grant of options, restricted stock, restricted stock unit awards and performance unit awards to new employees of the Company by granting an award to such new employee as an inducement for such new employee to begin employment with the Company. As of December 31, 2017 the Inducement Plan had 28,356 shares of common stock reserved for issuance, which may only be granted to an employee who has not previously been an employee or member of the board of directors of the Company. The terms of the Inducement Plan are substantially similar to the terms of the Company's 2016 Plan with two principal exceptions: (i) incentive stock options may not be granted under the Inducement Plan; and (ii) the annual compensation paid by the Company to specified executives will be deductible only to the extent that it does not exceed \$1.0 million. Under the Inducement Plan, the Company granted \$0.8 million of value Performance Restricted Share Units ("PRSUs") in 2016. The PRSUs will vest in a dollar amount representing between 0% to 250% of the target value upon the earlier of September 14, 2019 or a change in control of the Company. The actual payout amount will be based on the Company's market capitalization on the vesting date and the fair-market value of the Company's common stock on such vesting date and will be paid in shares of the Company's common stock.

The 2005 Plan, the 2016 Plan and the Inducement Plan are collectively referred to as the Plans.

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Stock Options

A summary of the Company's stock option activity under the Plans and related information is as follows (in thousands, except as indicated and per share data), as adjusted for the 1-for-12 reverse stock split:

	Shares	price	Weighted average exercise term	Weighted remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2016	1,155	\$ 12.17	7.75		\$ —
Granted	2,878	\$ 2.00			
Forfeited	(877 )	\$ 7.08			
Outstanding at December 31, 2017	3,156	\$ 4.31	8.28		\$ 1,841
Options vested and exercisable at December 31, 2017	535	\$ 14.05	4.55		\$ 45
Options vested and expected to vest at December 31, 2017	2,776	\$ 4.59	8.17		\$ 1,573

The weighted-average grant-date fair value per share of stock options granted during the years ended December 31, 2017 and 2016 was \$1.36 and \$4.43 , respectively. The aggregate intrinsic value of options at December 31, 2017 is based on the Company's closing stock price on the last business day of 2017 of \$2.66 per share.

As of December 31, 2017, there was \$3.2 million of unrecognized compensation expense for stock options which is expected to be recognized on a straight-line basis over a weighted average period of approximately 3.3 years.

Restricted Stock Awards and Units

The following table summarizes information about the restricted stock awards, restricted stock units and performance-based restricted units activity (in thousands, except as indicated and per share data), as adjusted for the 1-for-12 reverse stock split:

Shares	Weighted average grant	Weighted average remaining
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		date fair	recognition
		value	period
			(in years)
Unvested at December 31, 2016	1,092	\$ 7.48	3.02
Awarded	1,517	\$ 2.96	
Vested	(258 )	\$ 5.07	
Forfeited	(351 )	\$ 8.90	
Unvested at December 31, 2017	2,000	\$ 3.65	2.78

The weighted average fair value per share of awards granted during the years ended December 31, 2017 and 2016 was \$2.96 and \$5.79, respectively.

As of December 31, 2017, there was \$4.8 million of unrecognized compensation expense for restricted stock awards and units which is expected to be recognized on a straight-line basis over a weighted average period of approximately 2.8 years.

### Elite Medical Holdings and Pac 3 Surgical Collaboration Agreement

In October 2013, the Company entered into a three-year collaboration agreement with Elite Medical Holdings, LLC and Pac 3 Surgical Products, LLC (the "Collaborators") (the "Collaboration Agreement") to provide consultation services to assist the Company in the development of its products and its products in development. Under the terms of the collaboration agreement, the Company will gain exclusive rights to the use of all intellectual property developed by the collaborators. The Company agreed to make three annual payments to the collaborator as sole consideration for services provided, totaling an aggregate of up to \$8 million, paid in common stock of Alphatec Holdings at a per share price of \$23.35, which was equal to the average NASDAQ closing price of the common stock on the five days leading up to and including the date of signing the Collaboration Agreement. The actual number of shares issued each year will be determined by the fair market value of the services provided over the prior 12 months.

On November 2, 2015, the Company entered into a first amendment (the "First Amendment") to the Collaboration Agreement. Pursuant to the First Amendment, in exchange for a "lock up" restriction on selling or transferring each tranche of shares issued to the Collaborators and a maximum value cap, as discussed below, the Company has agreed to make a cash payment to the Collaborators in the event that the shares in such tranche do not have a minimum amount of value based on the market value of the Company's common stock at the end of the lock up period applicable to such tranche of shares. In addition, in the event that at the end of a lock up period the value of a tranche of shares issued to the Collaborators exceeds a certain amount, the Collaborators have agreed to forfeit shares back to the Company, so as to limit the maximum amount of value derived from such shares at the end of a lock up period. Pursuant to the First Amendment, the shares issued to the Collaborators in each of 2014, 2015 and 2016 are subject to a lock up that lasts until the first quarter of 2017, 2018 and 2019, respectively. The valuation of each tranche of shares occurs at the end of the applicable lock up period.

Based on the closing price of the Company's common stock on December 31, 2017, the Company has recorded a guaranteed compensation liability of \$6.8 million for shares of the Company's common stock previously issued under the Collaboration Agreement, with \$2.2 million payable in 2018 and 2019. The amount payable in 2017 is included in accrued expenses and the amounts payable in 2018 and 2019 are presented under other long-term liabilities in the consolidated balance sheet and represent the cash settlement amounts. If the Collaborators elect to sell, assign or transfer: (i) more than 20% of the shares issued to the Collaborators prior to the first valuation date; or (ii) any of the Collaborator shares still subject to a lockup after the first valuation date, all of the aforementioned restrictions on transfer and valuation minimums and maximums are null and void.

As of December 31, 2017, the Company has issued 342,356 shares of its common stock under this agreement and recorded an immaterial amount of expenses and \$2.1 million in the years ended December 31, 2017 and 2016, respectively, which is included in research and development expenses.

As described in more detail in Note 14, the Company and the Collaborators reached an agreement to settle the Collaboration Agreement in February 2018.

### Warrants

In December 2011, in connection with the third amendment to the Company's former credit facility with the SiliconValley Bank ("SVB"), finance charges totaling \$0.2 million were waived in exchange for the issuance to SVB of warrants to purchase 7,812 shares of the Company's common stock. The warrants are immediately exercisable, can be exercised through a cashless exercise, have an exercise price of \$19.20 per share and have a 10-year term.

As mentioned in Note 8, the Company issued Common Stock Warrants in connection with the private placement financing in March 2017. The warrants have a 5 year term from the issuance date. As of December 31, 2017, warrants

to purchase 7,763,582 shares of the Company's common stock for \$2.00 per share and warrants to purchase 471,600 shares of the Company's common stock for \$2.50 per share were outstanding.

As further described in Note 8, in December 2017 the Company issued warrants to Mr. Miles, the Company's executive chairman, to purchase 1,327,434 shares of the Company's common stock for \$5 per share. The warrants have a five year term. The warrants issued to Mr. Miles were accounted for as share based compensation, and the fair value of the warrants of approximately \$1.4 million were recognized in full in the statement of operations for the year ended December 31, 2017 because the warrants were immediately vested upon issuance. The following inputs were used to estimate the fair value of warrants issued to Mr. Miles: risk free interest rate of 1.9%, volatility of 99.5%, expected term of 2.3 years and dividend yield of 0%.

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### 2017 Distributor Inducement Plan

In December 2017, the Company adopted the 2017 Distributor Inducement Plan which authorizes the Company's Chief Executive Officer to issue distributors common stock of the Company and/or warrants to purchase the Company's common stock. The warrants are issued with exercise price as the fair market value on the date of issuance. Each warrant and common stock issuance is subject to vesting provision that is either time based and/or net sales based. As of December 31, 2017, 100,000 warrants and 17,000 shares of common stock were issued under the 2017 Distributor Inducement Plan, with 300,000 warrants and 583,000 shares of common stock available to be granted.

In December 2017, the Board of Directors also authorized grant of warrants to purchase 50,000 of the Company's common stock, and 75,000 restricted stock units to a distributor. These warrants and restricted stock units are subject to time based and net sales based vesting conditions.

None of the outstanding warrants and common stock issuances granted to distributors was vested as of December 31, 2017.

### 2018 Development Services Plan

In December 2017, the Company adopted the 2018 Development Services Plan which authorizes the Company's Executive Chairman to issue the Company's common stock to reward innovative developmental work. Issuance under the 2018 Development Services Plan will be subject to a vesting provision that is either developmental services based or royalty based, or both.

As of December 31, 2017, 3,000,000 shares were authorized to be issued under the 2018 Development Services Plan, and none has been issued or vested.

### Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following (in thousands), as adjusted for the 1-for-12 reverse stock split:

	December 31, 2017
Stock options outstanding	3,156
Unvested restricted stock award	2,000
Employee stock purchase plan	411
Series A convertible preferred stock	2,659
Warrants outstanding	9,570
Authorized for future grant under the Plans	478
	18,274

## 10. Income Taxes

The components of the pretax income (loss) from continuing operations are presented in the following table (in thousands):

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	Year Ended	
	December 31,	
	2017	2016
U.S. Domestic	\$(4,536)	\$(29,898)
Foreign	(38 )	(1,037 )
Pretax loss from operations	\$(4,574)	\$(30,935)

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The components of the (benefit) provision for income taxes from continuing operations are presented in the following table (in thousands):

	Year Ended December 31,	
	2017	2016
Current income tax (benefit) provision:		
Federal	\$(102)	\$(8 )
State	101	72
Foreign	3	—
Total current	2	64
Deferred income tax benefit:		
Federal	(36 )	(4,269)
State	—	(429 )
Total deferred	(36 )	(4,698)
Total income tax benefit	\$(34 )	\$(4,634)

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income (loss) from continuing operations as a result of the following differences:

	December 31,	
	2017	2016
Federal statutory rate	(35.0 )%	(35.0)%
Adjustments for tax effects of:		
State taxes, net	(7.4 )%	(1.7 )%
Stock-based compensation	16.1 %	2.3 %
Foreign taxes	1.2 %	0.1 %
Tax law change	459.1 %	—
Fair market value adjustments	(92.1 )%	0.4 %
Other permanent adjustments	1.3 %	0.3 %
Tax rate adjustment	(19.1 )%	0.3 %
Uncertain tax positions	(4.9 )%	(0.1 )%
Other	21.8 %	0.9 %
Valuation allowance	(341.8)%	17.5 %
Effective income tax rate	(0.8 )%	(15.0)%

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2017 and 2016 are as follows (in thousands):

	December 31,	
	2017	2016
<b>Deferred tax assets:</b>		
Allowances and reserves	\$259	\$705
Accrued expenses	1,808	1,452
Inventory reserves	4,443	7,071
Net operating loss carryforwards	35,975	37,444
Property and equipment	1,249	2,730
Intangible asset	2,046	3,291
Stock-based compensation	1,542	1,766
Legal settlement	6,881	11,494
Goodwill	1,755	3,029
Income tax credit carryforwards	3,326	5,429
Total deferred tax assets	59,284	74,411
Valuation allowance	(44,389)	(58,202)
Total deferred tax assets, net of valuation allowance	14,895	16,209
<b>Deferred tax liabilities:</b>		
Investment in foreign partnership	14,859	16,215
Total deferred tax liabilities	14,859	16,215
Net deferred tax assets (liabilities)	\$36	\$(6 )

The realization of deferred tax assets is dependent on the Company's ability to generate sufficient taxable income in future years in the associated jurisdiction to which the deferred tax assets relate. As of December 31, 2017, a valuation allowance of \$44.4 million has been established against the net deferred tax assets as realization is uncertain. During the year ended December 31, 2017 and 2016, valuation allowance decreased by \$13.8 and \$5.4 million, respectively.

In determining the need for a valuation allowance, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based on the review of all positive and negative evidence, including a three year cumulative pre-tax loss, the Company determined that a full valuation allowance should be recorded against its deferred tax assets.

In determining the need for a valuation allowance, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based on the review of all positive and negative evidence, including a three year cumulative pre-tax loss, the Company determined that a full valuation allowance should be recorded against its deferred tax assets.

At December 31, 2017, the Company has unrecognized tax benefits of \$4.4 million of which \$3.7 million will affect the effective tax rate if recognized when the Company no longer has a valuation allowance offsetting its deferred tax assets.

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The following table summarizes the changes to unrecognized tax benefits (in thousands):

	Year ended December 31,	
	2017	2016
Unrecognized tax benefit at the beginning of the year	9,331	10,359
Additions based on tax positions related to the		
current year	(1,981)	153
Additions based on tax positions related to the prior year	—	57
Reductions as a result of lapse of applicable statute		
of limitations	(551 )	(184 )
Reductions as a result of tax rate changes	(236 )	—
Reductions as a result of foreign exchange rates and other	(2,123)	(1,054 )
Unrecognized tax benefits at the end of the year	\$4,440	\$9,331

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The Company believes it is reasonably possible it will reduce its unrecognized tax benefits by \$0.1 million within the next 12 months.

The Company and its subsidiaries are subject to federal income tax as well as income tax of multiple state and foreign jurisdictions. With few exceptions, the Company is no longer subject to income tax examination by tax authorities in major jurisdictions for years prior to 2013. However, to the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses and tax credits were generated and carried forward and make adjustments up to the amount of the carryforwards. The Company is not currently under examination by the Internal Revenue Service, foreign or state and local tax authorities.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. As of December 31, 2017, there were no accrued interest and penalties. During 2017, there was a decrease of \$1.2 million in the accrued interest and penalties related to the uncertain tax positions of the Scient'x operations.

At December 31, 2017, the Company had federal and state net operating loss carryforwards of \$120.4 million and \$85.2 million, respectively, expiring at various dates beginning in 2018 through 2037. At December 31, 2017, the Company had federal and state research and development tax credit carryforwards of \$3.4 million and \$3.1 million, respectively. The federal research and development tax credits expire at various dates beginning in 2018 through 2037, while the state credits do not expire. As of December 31, 2017, the Company had foreign net operating loss carryforwards of \$6.5 million which do not expire. Utilization of the net operating loss and tax credit carryforwards may become subject to annual limitations due to ownership change limitations that could occur in the future as provided by Section 382 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), as well as similar state and foreign provisions. These ownership changes may limit the amount of the net operating loss and tax credit carryforwards that can be utilized annually to offset future taxable income.

The Tax Cuts and Jobs Act ("Act") was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. At December 31, 2017, the Company has not completed the accounting for the tax effects of enactment of the Act; however, it has made a reasonable estimate of the effects on our existing deferred tax balances.

The Company re-measured certain deferred tax assets and liabilities based on the tax rate at which they are expected to reverse in the future. However, the Company is still analyzing certain aspects of the Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to the re-measurement of our deferred tax balance was \$21.0 million, which was fully offset by a decrease in our valuation allowance.

The Company recorded a deferred tax benefit for the expected recovery of its minimum tax credits as of December 31, 2017 in the amount of \$36 thousand.

Due to uncertainties which currently exist in the interpretation of the provisions of the Act regarding Internal Revenue Code Section 162(m), the Company is continuing to evaluate the potential impacts of IRC Section 162(m) as amended by the Act.

The one-time transition tax is based on the total post-1986 earnings and profits ("E&P") previously deferred from US income taxes. In aggregate, the Company has a deficit in post-1986 E&P from its foreign subsidiaries. Therefore, the Company did not provide for US income taxes under the Act related to its foreign operations

#### 11. Related Party Transactions

For each of the years ended December 31, 2017 and 2016, the Company incurred costs of less than \$0.1 million, respectively, to Foster Management Company and HealthpointCapital, LLC for travel and administrative expenses. John H. Foster, who was one of the Company's directors until March 2, 2016 is a significant equity holder of HealthpointCapital, LLC, an affiliate of HealthpointCapital Partners, L.P. and HealthpointCapital Partners II, L.P., which are the Company's principal stockholders. As of December 31, 2016, the Company also had a liability of less than \$0.1 million payable to HealthpointCapital, LLC for travel and administrative expenses. There was no outstanding receivable or payable balance with HealthpointCapital as of December 31, 2017.

In July 2016, the Company entered into a forbearance agreement with HealthpointCapital, LLC, HealthpointCapital Partners, L.P., and HealthpointCapital Partners II, L.P. (collectively, "HealthpointCapital"), pursuant to which HealthpointCapital, on behalf of the Company, paid \$1.0 million of the \$1.1 million payment due and payable by the Company to Orthotec on July 1, 2016 and agreed

to not exercise its contractual rights to seek an immediate repayment of such amount. Pursuant to this forbearance agreement, the Company repaid this amount in September 2016. The Company and HealthpointCapital entered into an agreement for joint payment of settlement whereby HealthpointCapital has agreed to contribute \$5 million to the \$49 million settlement amount.

Certain of the Company's board of directors and senior management participated in the March 2017 Private Placement (Note 8).

#### Indemnification Agreements

The Company has entered into indemnification agreements with certain of its directors, which are named defendants in the Orthotec litigation matter in New York (See Note 7). 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 years ended December 31, 2017 and 2016, the Company paid less than \$0.1 million in each year in connection with the indemnification obligations of Scient'x and Surgiview, all of which was related to the Orthotec matter. (See Note 7).

#### 12. Retirement Plan

The Company maintains an employee savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the savings plan, participating employees may contribute a portion of their pre-tax earnings, up to the Internal Revenue Service annual contribution limit. Additionally, the Company may elect to make matching contributions into the savings plan at its sole discretion of up to 4% of each individual's compensation. Matching contributions vest after one year of service. The Company's total contributions to the 401(k) plan were \$0.2 million and \$0.4 million for the years ended December 31, 2017 and 2016, respectively.

#### 13. Restructuring Activities

In connection with the Globus Transaction (described in Note 4), in 2016, the Company terminated employment agreements with several executive officers, including the chief executive officer and the chief financial officer, and commenced an employee headcount reduction program. The Company had additional headcount reductions in February 2017, and recorded restructuring expenses of \$2.2 million for the year ended December 31, 2017, related to severance liability and post-employment benefits. A rollforward of the accrued restructuring liability is presented below (in thousands):

Balance as of January 1, 2017	\$1,328
Accrued restructuring charges	2,206
Payments	(3,014)
Balances as of December 31, 2017	\$520

All activities and costs are expected to be completed during 2018.

The Company recorded restructuring expenses related to severance and post-employment benefits of \$1.9 million in the year ended December 31, 2016, related to its U.S. workforce reduction in connection with the Globus Transaction.

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 included a reduction in workforce and closing the California manufacturing facility. The Company incurred termination benefits, accelerated depreciation, facility closing and other restructuring costs of \$0.4 million during the year ended December 31, 2016.

#### 14. Subsequent Event

##### Acquisition of SafeOp Surgical, Inc.

On March 9, 2018, the Company announced its acquisition of SafeOp Surgical, Inc. (“SafeOp”). Under the term of the definitive merger agreement, the Company paid \$15 million in cash, agreed to issued 3,265,132 shares of common stock, issued \$3 million of convertible note that are convertible into 931,667 shares of common stock and issued warrants to purchase 2.2 million shares of common stock at an exercise price of \$3.50 per share. An additional 1,330,263 shares of common stock are issuable upon achievement of post-closing milestones.

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### Private Placement

On March 8, 2018, the Company completed a \$39.7 million first close of a \$45.2 million private placement of its securities to certain institutional and accredited investors, including certain directors and executive officers of the Company. The second close of the private placement is expected to occur within five business days. The private placement was led by L-5 Healthcare Partners, an institutional investor, and provides for the sale by the Company of approximately 14.3 shares of newly created Series B Convertible Preferred Stock, which are automatically convertible into approximately 14.3 million shares of common stock (representing a purchase price of \$3.15 per common share), upon approval by Alphatec's stockholders, as required in accordance with the NASDAQ Global Select Market rules. Purchasers also received warrants to purchase up to approximately 12.2 million shares of common stock at an exercise price of \$3.50 per share. In addition, the Company entered into an agreement with Armistice Capital, an existing investor, to exercise 2.4 million warrants to purchase common shares for gross proceeds of \$4.8 million in exchange for warrants to purchase up to 1,800,000 shares of common stock at an exercise price of \$3.50 per share. The new warrants will be exercisable following approval by Alphatec stockholders, and will expire five years from the date of such stockholder approval. Certain directors and executive officers of Alphatec agreed to purchase an aggregate of \$6.4 million of shares of Series B Convertible Preferred Stock, which shares are convertible into approximately 2.1 million shares of common stock (representing a purchase price of \$3.15 per common share), and warrants to purchase up to 1.7 million shares of common stock at a price of \$3.50 per share. The Company paid \$15 million of the net proceeds from the private placement fund the cash purchase price for SafeOp, and will use the remaining net proceeds for working capital and general corporate purposes, including the integration of next-generation neuromonitoring solutions, advancement of its product pipeline, and investment in sales and marketing to expand our market presence.

### Termination and Settlement of Elite Medical Holdings and Pac 3 Surgical Collaboration Agreement

In February 2018, the Company reached a settlement agreement with Elite Medical Holdings and Pac 3 Surgical, pursuant to which the Company made a cash payment of \$0.4 million as the final and total compensation under the Collaboration and related Amendment. In addition, the parties agreed to release each other and waive any and all rights and claims arising from the Collaboration Agreement. The Company expects to record a gain of approximately \$6.3 million for the three months ended March 31, 2018, reflecting the reversal of accrued obligations previously recorded under the Collaboration.

### Amendments to Credit Agreements

On March 8, 2018, we entered into we entered into a Seventh Amendment to the Amended Credit Facility with MidCap Funding IV, LLC and a Second Amendment to the Globus Facility Agreement to extend the date that the financial covenants of the respective agreements are effective from April 2018 to April 2019, and established a minimum liquidity covenant of \$5.0 million through March 31, 2019.

### Patent Infringement Lawsuit

On February 13, 2018, NuVasive, Inc. filed suit against us in the United States District Court for the Southern District of California, alleging that certain of our products (including components of the Squadron™ Lateral Retractor, the Battalion™ Lateral Spacer and other components of the Battalion™ Lateral System), infringe, or contribute to the infringement of, U.S. Patent Nos. 7,819,801, 8,355,780, 8,439,832, 8,753,270, 9,833,227 (entitled "Surgical access system and related methods"), U.S. Patent No. 8,361,156 (entitled "Systems and methods for spinal fusion"), and U.S. Design Patent Nos. D652,519 ("Dilator") and D750,252 ("Intervertebral implant") (collectively, the "NuVasive Patents"). NuVasive is seeking unspecified monetary damages and a court injunction against future infringement by

us. We intend to vigorously defend ourselves in this matter, beginning by answering the complaint, denying the allegations and filing counterclaims seeking dismissal of NuVasive's complaint and a declaration that we have not infringed and currently do not infringe any valid claim of the NuVasive Patents. In addition, we may also seek the following relief: (i) a declaration that the NuVasive Patents are invalid; (ii) a permanent injunction against NuVasive charging that we have infringed or are infringing the NuVasive Patents; and (iii) costs and reasonable attorneys' fees. The case is in the very early stages of proceedings, with an order establishing a schedule for the case expected within the next few months. As of the date of this Annual Report on Form 10-K, the probability of an outcome cannot be reasonably determined, nor can the Company reasonably estimate a potential loss; therefore, in accordance with Accounting Standards Codification 450, Contingencies, the Company has not recorded an accrual related to this litigation.

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