

Alphatec Holdings, Inc.
Form 10-Q
August 04, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 000-52024

ALPHATEC HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

5818 El Camino Real

Carlsbad, CA 92008

(Address of principal executive offices, including zip code)

(760) 431-9286

(Registrant's telephone number, including area code)

20-2463898

(I.R.S. Employer
Identification No.)

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

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

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a small reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No As of August 3, 2015, there were 100,107,871 shares of the registrant's common stock outstanding.

ALPHATEC HOLDINGS, INC.
QUARTERLY REPORT ON FORM 10-Q
June 30, 2015
Table of Contents

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2015 and 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>32</u>
Item 4. <u>Controls and Procedures</u>	<u>32</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>34</u>
Item 1A. <u>Risk Factors</u>	<u>34</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
Item 6. <u>Exhibits</u>	<u>36</u>
<u>SIGNATURES</u>	<u>37</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ALPHATEC HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except for par value data)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash	\$8,898	\$19,735
Restricted cash	4,400	4,400
Accounts receivable, net	38,857	40,440
Inventories, net	41,237	41,747
Prepaid expenses and other current assets	4,203	5,466
Deferred income tax assets	2,479	1,324
Total current assets	100,074	113,112
Property and equipment, net	23,834	26,040
Goodwill	163,752	171,333
Intangibles, net	24,885	30,259
Other assets	1,627	4,179
Total assets	\$314,172	\$344,923
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$10,422	\$10,130
Accrued expenses	28,147	35,393
Deferred revenue	1,001	1,300
Common stock warrant liabilities	6,985	8,702
Current portion of long-term debt	6,753	8,076
Total current liabilities	53,308	63,601
Long-term debt, less current portion	69,784	74,597
Other long-term liabilities	30,599	32,220
Deferred income tax liabilities	3,291	1,948
Redeemable preferred stock, \$0.0001 par value; 20,000 authorized at June 30, 2015 and December 31, 2014; 3,319 shares issued and outstanding at both June 30, 2015 and December 31, 2014	23,603	23,603
Stockholders' equity:		
Common stock, \$0.0001 par value; 200,000 authorized at June 30, 2015 and December 31, 2014; 100,107 and 99,856 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	10	10
Treasury stock, at cost, 19 shares, at both June 30, 2015 and December 31, 2014	(97	) (97
Additional paid-in capital	416,720	413,921
Shareholder note receivable	(5,000	) (5,000
Accumulated other comprehensive loss	(20,974	) (11,316
Accumulated deficit	(257,072	) (248,564
Total stockholders' equity	133,587	148,954
Total liabilities and stockholders' equity	\$314,172	\$344,923

See accompanying notes to unaudited condensed consolidated financial statements.

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

(in thousands, except per share amounts)

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

ALPHATEC HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. The Company and Basis of Presentation

The Company

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

Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2014, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared by the Company in accordance with U.S. generally accepted accounting principles (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”) related to a quarterly report on Form 10-Q. Certain information and note disclosures normally included in annual audited financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made in this quarterly report on Form 10-Q are adequate to make the information not misleading. The interim unaudited condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2014, which are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 that was filed with the SEC on February 26, 2015.

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

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. A going concern basis of accounting contemplates the recovery of the Company’s assets and the satisfaction of its liabilities in the normal course of business. Based on the Company’s annual operating plan, management believes that its cash as of June 30, 2015 of \$8.9 million combined with anticipated cash flow from operations through June 30, 2016 and other working capital, excluding common stock warrant liabilities, of \$44.9 million at June 30, 2015 and the Company’s available borrowings under the credit facilities with MidCap Financial, LLC (“MidCap”) will be sufficient to fund its cash requirements through at least June 30, 2016