MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Alphatec Spine, Inc. Third Quarter Fiscal 2008 Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to the CFO, Mr. Peter Wulff. Please go ahead, sir.

Peter C. Wulff, Chief Financial Officer, Vice President and Treasurer

Thank you very much, and good afternoon, everyone. Welcome to Alphatec Spine's conference call to discuss our third quarter fiscal year 2008 financial and operating results. With me today is Dirk Kuyper, President and CEO; Ebun Garner, General Counsel; and Cheryl Monblatt, Director of Investor Relations.

If you do not have a copy of today's press release, you can find it in the Investor Relations section on our website, at www.alphatecspine.com.

Before we start, there are a couple of items we'd like to cover. I'd like to remind you that this call is being webcast live and recorded. A replay of the event will be available, later today, on our website and will remain available for at least 30 days following the call.

We would like to remind you that our discussions today include forward-looking statements, these statements are based on certain assumptions made by us based on historical trends, current conditions, expected future developments, including business prospects, product development objectives and future financial performance and other factors we believe to be appropriate in the circumstances.

Risks and uncertainties may cause our actual results to differ materially from these projected and these forward-looking statements. You can find a discussion of these factors and more information about us in our filings with the SEC, including the Risk Factor section on our Form 10-K for 2007, as amended and subsequently Quarterly Reports on our Form 10-Q and periodic filings on Form 8-K.

These forward-looking statements are made as of the date of this call, and we assume no obligation to update these statements publicly, even if new information becomes available in the future. This broadcast is covered by U.S. copyright laws and any use or rebroadcast of all or any portion of this conference call may only be done with our expressed written permission.

And now, I'll hand the call over to Dirk Kuyper, Alphatec Spine's President and CEO

Dirk Kuyper, President and Chief Executive Officer

Thank you, Peter, and good afternoon, everyone. Thank you for joining us today. As you know, we previously announced our third quarter 2008 revenue performance on Monday October 13 of 2008. At that time, we announced continued record growth, the status of the OsseoFix system, both, in the United States and Europe, as well as the launch of numerous new products at the North American Spine Society meeting.

This afternoon, we'll provide additional highlights on our – of our operating performance for the third quarter and a description of some of our newly launched products. Then I'll turn the call back over to Peter Wulff, who'll provide a more detailed review of our financial performance. Following Peter, I'll come back and discuss the status of some of our key development projects in our product pipeline and introduce a couple of key additions to the Alphatec Spine team before opening the call up for questions.

First, I'd like to start off by congratulating the Alphatec Spine team, as this is our fifth consecutive quarter of achieving record revenues. Our revenues were 25.8 million for the third quarter of 2008, representing a 27% increase of our revenues from the same period last year.

In the U.S., we grew third quarter 2008 revenues by approximately 28% over last year's quarterly results, resulting in a sequential acceleration of our core business growth rate. Third quarter U.S. revenue grew over the second quarter by almost 11%.

For the nine months ended September 2008, revenues were 72.9 million, an increase of approximately 24% over revenue from the prior year nine months. Year-to-date 2008 revenue for the U.S. of 59.5 million grew 20% over prior year-to-date 2007 U.S. revenues.

As evidenced by this performance, we continue to grow our revenues that are derived from our core spinal product portfolio at a rate that is greater than the growth rate of the spine market.

I'm also pleased to announce that, as we grow the topline, we are close to achieving a operating performance metric, adjusted EBITDA, by reporting negative 91,000 in adjusted EBITDA for the third quarter of 2008, which excludes stock-based compensation and in-process R&D expenses.

We continue to focus on expanding our core business product portfolio, while developing and commercializing innovative products for the – for treating conditions related to the ageing spine. As previously announced, we introduced nine new products last month at the North American Spine Society meeting in Toronto, Canada.

The nine new products included the OsseoFix Spinal Fracture Reduction System, which is being launched in Europe; and eight other products, which are being launched in the U.S., which include the Novel Cervical Interbody system and our ProFUSE demineralized bone scaffold.

The Novel Cervical Interbody system is used when performing an anterior cervical discectomy and fusion procedure. The total interbody market in the U.S. is estimated to be valued at more than 930 million, and cervical interbody procedures are estimated to account for approximately 49% of that total.

We are pleased to be one of the few companies to have the clearance from the FDA to market a cervical interbody device. The addition of the new Novel Cervical Interbody system to our product portfolio is a positive step in our Company's commitment to bringing a full line of high-quality spinal solutions to the surgeon community.

The ProFUSE demineralized bone scaffold expands our orthobiologics product line. The ProFUSE demineralized bone scaffold is a porous, malleable allograft that can be used with our Novel spacers and AlphaGRAFT structural allografts.

The ProFUSE product is derived entirely of bone and can be placed in a void within a spacer or on top of the spacer. Following placement, the ProFUSE scaffold expands to foster maximum contact between the spacer and the endpoint of the vertebral body, which is designed to promote fusion.

The ProFUSE product comes prepackaged in Alphatec Spine's new and proprietary Vacuum Infusion Packaging system, which we call the VIP. The VIP is a unique packaging system that allows for rapid hydration of the ProFUSE scaffold. We additionally expect to launch our AlphaGRAFT structural allograft spacers packaged in VIP in early 2009.

In addition to our successes in the U.S., we're also excited about our progress in Europe. Last month, we received CE Mark for the OsseoFix Fracture Reduction System, which allows us to market OsseoFix in Europe. Our business in Europe also continues to expand as we signed a

second exclusive distributor. During the third quarter of 2008, we recorded revenue of approximately $500,000 for Europe.

I'd now like to turn the call back over to Peter to discuss third quarter financial results.

Peter C. Wulff, Chief Financial Officer, Vice President and Treasurer

All right, thank you, Dirk. The following remarks are about our reported operating performance for the third quarter 2008. As Dirk mentioned, consolidated revenues for the third quarter 2008 were 25.8 million, an increase of 27% from the 20.3 million reported for the third quarter 2007. U.S. revenue for the third quarter of 2008 were 21.5 million, an increase of approximately 28% from the 16.8 million reported for the third quarter of 2007.

Asia revenues for the third quarter 2008 were 3.9 million, an increase of 10% over the third quarter 2007. Gross profit for the third quarter 2008 was 16.7 million, an increase of 3.8 million over the third quarter of 2007 of 12.9 million.

Third quarter 2008 gross margin of 64.7% increased over the third quarter 2007 gross margin of 63.7%. Our gross margins continue to improve over prior year, primarily due to improved manufacturing efficiencies and reduced instrument depreciation expense, partially offset by an increased royalty expense.

Total operating expenses for the third quarter of 2008 were 21.2 million, an increase of 2.9 million compared to the third quarter 2007 of 18.3 million. The increase in operating expense is primarily due to continued investment over prior year in both research and development and sales and marketing.

Research and development expenses for the third quarter 2008 were 3.4 million, an increase of 2.1 million compared to the third quarter 2007 of 1.3 million. The increase in expenditures was primarily due to development activities relating to the development of the OsseoFix system, the OsseoScrew and also core product development activities.

Sales and marketing expenses for the third quarter 2008 were 10.7 million, an increase of 2.2 million compared to the third quarter 2007 of 8.5 million. The increase was primarily due to an increase in marketing personnel to support the product development pipeline and corporate rebranding as well as sales commission expenses related to the increase in our sales volume.

General and administrative expenses for the third quarter 2008 were 5.8 million, a decrease of 0.3 million compared to the third quarter 2007 of 6.1 million. Previously reported G&A expenses as well as sales and marketing expenses have been adjusted in order to reclassify Japan sales and marketing operating expenses into sales and marketing expenses. There is no effect on this relative to the Company's total operating expenses or total net loss.

As of September 30, 2008, the Company has also recorded total deferred revenue on the balance sheet of approximately $2.8 million. The Company will recognize this revenue when we receive payment in future reporting periods. The net loss for the third quarter 2008 was 4.9 million or negative 0.1 per share, both basic and diluted, compared with the net loss of 5.6 million or negative $0.16 per share, both basic and diluted, for the third quarter 2007.

As of September 30, 2008, cash and cash equivalents totaled $10.9 million. In addition, for the third quarter 2008, we reported, on a non-GAAP basis, an EBITDA adjusted for stock-based compensation and in-process research and development expenses of negative $91,000.

In October, we announced an increase to our revenue guidance for the full year 2008 from 95 million to 100 million, an increase of approximately 25% over full 2007 actual revenues of 80 million.

In closing, I'd like to mention that we have been invited by several investment banks to present at their healthcare investor conferences in the near future. This month, we'll be presenting at the Rodman & Renshaw Tenth Annual Healthcare Conference in New York City and the Lazard Capital Markets Fifth Annual Healthcare Conference in New York City as well. And in December, we'll be presenting at the RBC Capital Markets Healthcare Conference as well. We hope to see you at one of these prestigious conferences in the future.

And now, I'd like to turn the call back over to Dirk. Thank you.

Dirk Kuyper, President and Chief Executive Officer

Thank you, Peter. Our U.S. sales distribution network continues to improve, both in terms of absolute growth and in dedication. We have improved the ratio of exclusive spine distributors to approximately 61% of our total distributor network. Our company goal was to have 60% of exclusive spine distributors by the end of 2008, so we are moving ahead of that goal.

We now have over 90 total distributor organizations in the U.S., which we believe represent approximately 220 sales representatives. This is an increase from year-end 2007 of approximately 23%. A driver of our continued year-over-year revenue increase is the increased adoption of our products by the surgeon community. As of the end of the third quarter 2008, we have over a 28% increase from year-end 2007 in the number of surgeons that consistently use Alphatec Spine products.

As we announced previously, we have received a CE Mark for the OsseoFix system, which allows us to sell OsseoFix in Europe. In conjunction with the launch of the OsseoFix system in Europe, we also plan to launch the OsseoFix Plus cement as well as delivery system, which already has CE Mark approval.

We have already begun training European surgeons on the use of the OsseoFix and OsseoFix Plus systems, and we will be conducting a second training lab in December. We believe that the OsseoFix system provides a competitive advantage that will enable us to gain access to the European spine market.

Further, we will be launching the OsseoFix cement and vertebralplasty system in the U.S. before the end of the year. The OsseoFix Plus system has improved opacity for visualization under imaging, as it uses our zirconium dioxide, as opposed to barium sulphate, as the opacity agent. It also has a self-contained mixing chamber for fume reduction in the operating room and a superior delivery system for uniform cement introduction.

In addition, as we previously announced following recent discussions between the FDA and Alphatec. The FDA has asked us to conduct a clinical study for OsseoFix in support of our 510(k) application. Exact details related for the parameters and timing of the study are presently being discussed with the FDA. We expect to have our pre-IDE meeting prior to the end of the year. We'll provide an update on the study and the anticipated launch date of the OsseoFix system in the U.S. markets, once these discussions are completed.

Regarding OsseoScrew, our unique pedicle screw system for treating patients with poor bone quality, we are still on track to submit a 510(k) application for the system in December, subject to conclusion of biomechanical testing, which is currently ongoing.

The GLIF system, which is our breakthrough access system for a far lateral approach to the spine, which allows for patients to be operated in a natural face down position. The GLIF is designed to allow surgeon to perform 360-degree minimally invasive procedure without the need for repositioning of the patient, which may reduce the length of the surgical procedure, reduce trauma to the patient and reduce post-operative recovery period.

We have elected to speed up the development of the GLIF by applying additional R&D resources in light of the delay of the U.S. introduction of OsseoFix. This will allow us to release the product to market, early during the second quarter of 2009.

In addition, our R&D and marketing teams are hard at work on our next phase of core product development, which are scheduled for release in the spring of 2009, and which will include a comprehensive Anterior Lumbar Interbody Fusion system for ALIF procedures. This will include a new footprint implant, an innovative inserter distracter and an Anterior Lumbar plate.

We have recently announced the addition of Peter Kohlbecher, an experienced sales and marketing medical executive, as Vice President, General Manager of our Europe operations. Peter will head up our sales, marketing and business development activities in Europe, and we look forward to his efforts in this area.

We also announced last week that we have strengthened our Board of Directors with the addition of Siri S. Marshall, Esq. to the Board. Siri is the former Senior Vice President, General Counsel and Secretary of General Mills. Prior to joining General Mills, Siri was Senior Vice President, General Counsel and Secretary of Avon Products, Inc. Siri also serves as a Director for several other public companies and businesses and on legal advisory panels.

We are very pleased that Ms. Marshall has agreed to join our Board of Directors. Her experience as a Senior Business Executive with Fortune 500 companies will be a tremendous asset to Alphatec Spine. The Board and I look forward to working with Siri as we continue to grow and create shareholder value.

In summary, we're extremely pleased to have exceeded our goal of obtaining at least a 20% growth rate in the U.S. and we are confident that we can sustain this growth rate going forward. It is significant to note that this growth occurred prior to the launch of any of our new products underdevelopment that are focused on treating disorders of the ageing spine.

We will continue to achieve this growth by focusing on sales force expansion and upgrades, moving to an exclusive distribution network and by continuing to bring innovative products that compliment our existing core product line to market. Our mission is to serve the physician and patient communities with superior products that are high quality, surgeon-friendly and clinically effective.

Now, I'd like to open this up to your questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll have our first question from Vivian Cervantes, Rodman & Renshaw.

<Q – Vivian Cervantes>: Hi, good afternoon, thank you for taking the question. I'll start off with OsseoScrew. Looks like you guys are poised to submit at the end of December. I wanted to just check in to see if you're submitting with bone cement or without bone cement?

<A – Dirk Kuyper>: We haven't totally decided. We're still discussing that with our FDA consultant in terms of what the best way to submit OsseoScrew is. Our intention is to get it cleared as a pedicle screw, obviously, as quickly as possible. And then look for clinical studies beyond that that would allow us to make additional claims in the future. So – but we're not totally decided, we'll probably in the next month or so – we'll come to that decision.

<Q – Vivian Cervantes>: Okay. That sounds good. And then moving along to OsseoFix. I think it's great that you guys are starting to train European docs and that you're poised to do another lab again in December. Can you give us a sense for when we'll begin to see active selling efforts for this product? I know you've signed a second exclusive distributor in Europe, but at what point, do you think we'll begin to see some contributions there?

<A – Dirk Kuyper>: Okay. So, that's a good question. We did train – we had a lab at the end of the NASS meeting, Friday evening actually and several European surgeons participated in that. They primarily are linked to the ongoing clinical study that we have ongoing in Germany. We do have a number of surgeons that are very interested in beginning to use OsseoFix that are in the countries where we've already established distribution. And those are the surgeons that will be coming to the lab in early December; it's actually scheduled for the 12th.

So, we anticipate shipping product prior to the lab, providing the formalized training on December 12, and then starting to see revenue and patients being treated with OsseoFix very quickly thereafter. So, we probably will see a little bit of contribution in the fourth quarter. But really, I think first quarter of '09 is when we should see a steep pickup. What we're very encouraged about is, both, at the NASS meeting, at the lab after NASS, and then we recently conducted a lab, actually, this last weekend in Las Vegas. The response to OsseoFix is universally positive. So we're very encouraged by that and believe that this will really help us to drive at a much faster rate into the European market going forward.

<Q – Vivian Cervantes>: Understood. How big are the lab class sizes? I mean can we get a sense for how much, how many doctors you're training on a month-by-month basis?

<A – Dirk Kuyper>: Yeah, the lab following NASS, I didn't attend it. But I believe there were around 20 surgeons in that lab. The lab over the weekend had close to 30. And I believe, sort of the early indication of this European lab is somewhere between 15 and 20.

<Q – Vivian Cervantes>: Okay. And then can you sort of give us a framework for the types of doctors that you're training, are these the high volume centers, the university guys, I mean, any clarity there would be helpful.

<A – Dirk Kuyper>: It's actually kind of a mix. We're definitely targeting university and high volume surgeons because those are obviously, where you'll find early adopters and where we'd like to get in, but I would say, it's a pretty good mix of both.

<Q – Vivian Cervantes>: Okay, that's helpful. Thanks, I'll get back into queue.

<A – Dirk Kuyper>: Okay. Thank you, Vivian.

Operator: We'll have our next question from Tao Levy with Deutsche Bank.

<Q – Seth Waugh>: Yeah. Hi guys. This is actually Seth for Tao. How are you doing?

<A – Dirk Kuyper>: Good. Hi Seth, how are you?

<Q – Seth Waugh>: I'm doing well, thank you. Nice revenue number, just a couple of financial questions if I can. First on Europe, I just wanted to touch on the gross margin, so it's just a shade above Asia, yet I assume the revs in Europe are all ATEC products, so I'm having a little disconnect getting to why the number is, I guess, so low? Are prices in, I guess, to the European distributors lower? Or is it just a temporary phenomenon?

<A – Peter Wulff>: Well, Seth, this is Peter Wulff. No, I don't believe this is temporary phenomenon; this reflects essentially the wholesale pricing that we have for Europe to these distributors that we have exclusively promoting the Alphatec product, and this only reflects Alphatec product as well for Europe.

<Q – Seth Waugh>: Okay. And then -

<A – Peter Wulff>: I would bear in mind for the audience here that, just to clarify, our gross margin includes, obviously, our actual cost of production for this materials. We also are selling our instrument sets, which we don't do in the Unites States. As you know, the instrument sets are provided for the cases here and we depreciate that expense to our cost of goods sold in the United States. And obviously we have our royalty obligations similar to our Alphatec product in the U.S. as well.

<A – Dirk Kuyper>: But, Seth, I do think it's important to point out that what – the reorder of just implants should see a higher margin because we – clearly there is not a lot of benefit to marking up the instruments with a large margin. So, we're selling those, at sort of a cost plus basis to help the distributor – these new distributors out.

<Q – Seth Waugh>: That makes a lot of sense actually.

<A – Dirk Kuyper>: Yeah, okay.

<Q – Seth Waugh>: And then one thing I've seen internationally is that your DSO looks like it crept up a couple days; are terms the same in Europe and Asia as they are in the U.S?

<A – Peter Wulff>: The terms for the European market are longer than they are in the U.S. and we do all of our business in Europe on a irrevocable letter of credit. So, we have that. The terms for the U.S. has not changed. They're consistently in the mid-to-low 50s and I think they're about the same as well for accounts receivable in Japan.

<Q – Seth Waugh>: Okay. Then, one other question on the capital structure. So, this is something that we've been looking at, I guess, for a while; and it looks like net debt is about 7 million. And I think if I calculate correctly, you probably burned about 6 million in cash in the quarter. So, where do you expect to be by year-end on a net debt basis and do you have flexibility in your line of credit, as far as additional drawdown power, and any debt covenants on like an EBITDA calculation?

<A – Peter Wulff>: Yeah, let me go from easy to hard here. First of all, with our existing credit facility, we do not have any sort of EBITDA financial covenants in our current credit facility. Secondly, as we do expect to be able to continue to fund our operations going forward through this credit facility and so we do not expect to see any need for any other financing down the road.

<Q – Seth Waugh>: Okay. And then, I guess one last thing. For EBITDA, I was just looking at your calculation and so year-on-year CapEx is up. Our PP&E is up, depreciation is down, I am having a tough time understanding that. I know you changed the amortization of intangibles method, but maybe this is longer depreciating equipment?

<A – Peter Wulff>: Well, when we – Wulff – as you've seen in the prior filings on the 10-Q and the statement of cash flows and as you'll note in the – in this quarter's filing for the 10-Q. We've made considerable investments – you know, this year and this quarter in instrument purchases to support our expansion of our market in the U.S.

<Q – Seth Waugh>: Right, but then wouldn't depreciation be up?

<A – Peter Wulff>: Depreciation, going forward is increasing. However, it's not increased yet at a rate to exceed, what we have from last year, where we were on a two year, depreciable life basis versus four years, which is our current standard for going forward.

<Q – Seth Waugh>: Okay.

<A – Dirk Kuyper>: Yes, we did – we switched from two to four years.

<Q – Seth Waugh>: Okay. That's good to know, all right thanks guys.

<A – Peter Wulff>: All right. Thank you.

Operator: We'll have our next question from Bill Plovanic, Canaccord Adams.

<Q – William Plovanic>: Great. Thank you, good evening.

<A – Dirk Kuyper>: Hi, Bill.

<Q – William Plovanic>: A very good quarter, and just a simple question, I'm sure a lot of people are thinking, but – you know you've seen accelerating growth on a tough quarter in the U.S. We've got October under our belt, are we seeing this trend continue?

<A – Dirk Kuyper>: We do believe that it will continue. Yes. You know, there's a lot of opportunity in the marketplace right now in terms of – you know, we still have a lot of areas of the country that are poorly covered, even though we have done a – the team's done a great job of expanding the distribution network.

We still have areas, where we are really – we really under represented. And there are some opportunities with some of the – what's going on in the marketplace. So, we see the opportunity to continue this growth rate certainly for the foreseeable future and then as the new products kick-in, they certainly will help.

<Q – William Plovanic>: I mean, can you give us an idea. There's been a lot of changes in the marketplace with Zimmer and Abbott getting together and just, so I think, some other companies slowing down and some changes out there. But you know, just a feel for – did the numbers that you gave us, include any new distributors you've signed up in the last 30 days or so?

<A – Dirk Kuyper>: What do you mean – which numbers, you mean from last quarter?

<Q – William Plovanic>: Yes, I think you said, you had 90 distributors with about 220 reps, that was up 23%. Did that include anything you've signed in the last 30 days or is that of the end of the September?

<A – Peter Wulff>: No, that is as of the end of September, and we've signed a couple in the last 30 days. So, that's what I'm saying, this number's going to continue to go up.

<Q – William Plovanic>: Okay. And then, I think, it was asked earlier, and I'm sorry, if I did miss this. But on the U.S. GMs, we did that they were down sequentially in year-over-year. What are we missing? Why was that down, I would expect with the bigger revenue number that, those gross margins will continually go up.

<A – Peter Wulff>: Hi, Bill. This is Peter. Actually, if you look at the gross segment – segment information for gross margin, in the U.S., we reported 67.9% gross margin for third quarter 2008, and 68.9% for 2007. Part of that is due to the increase in royalty obligation that we have this year.

If you look at it on a year-to-date basis, however, we continue to improve on a year-to-date basis over prior year margins, and we expect that to continue as our manufacturing efficiencies continue to improve to offset the marginal increase we have, in our royalty expense.

<Q – William Plovanic>: Okay. And then, you were talking about the European gross margins previously, I mean, what are the operating expenses associated with those revenues?

<A – Peter Wulff>: There are none at this point, for this reporting period, these are essentially export sales from our facilities here.

<Q – William Plovanic>: Okay. So from an operating basis, it's as profitable. It's not more than the U.S. businesses today.

<A – Peter Wulff>: Our existing operating infrastructure is supporting this business without any incremental costs.

<Q – William Plovanic>: Okay. And then just -- relative to OsseoScrew and GLIF considering that the OsseoFix faced some challenges. Do you -- ranking kind of on a scale of one to 10, obviously OsseoFix is a little higher to 10 being more difficult, but how would you rank OsseoFix and GLIF relative to getting through the FDA and potential kind of hang-ups that we've seen with the OsseoFix?

<A – Dirk Kuyper>: Okay. I think in terms of GLIF itself, we don't anticipate any difficulty because that -- it is an access system, which is really class one and then the implant is really an interbody fusion device. So we don't anticipate a lot of difficulty with GLIF. We do believe we have a good solution for the neuromonitoring. So we feel very -- that's really just getting into market, frankly.

In terms of OsseoScrew, our intention and that's why we were working with the same FDA consultant that we're working with on OsseoFix in order to make sure that we don't end up sort of in the same place, if you will, and that's an ongoing discussion.

So it's really a balance against speed-to-market versus how far we want to push the indication at this point. And we're not – so, I think, we can get it approved as a pedicle screw and then we'll have to go back subsequently for additional indications but that that -- we're not quite at that decision point.

<Q – William Plovanic>: Okay. And then the last question just for Peter, relative to kind of the sales and marketing and G&A, on a historical basis, have you provided that in a case somewhere? So that we can have quarterlies for this year or is that going to kind of just come out over time?

<A – Peter Wulff>: No. In the Q there is a table that is included in the Q that's being filed that will provide for you the breakout between sales and marketing expenses as previously reported to, as it

suggested on the new reporting basis. And it clearly breaks out those amounts for each quarter for 2007 and then also for what we've reported for the three quarters of 2008.

<Q – William Plovanic>: And then are there any major one-time or big spends in the third quarter that we should be aware about of or is this kind of the baseline going forward?

<A – Peter Wulff>: I think that's more or less the baseline of going forward here. I mean, we've got the in-process R&D that everybody can see and the separate expense cash on the income statement. Otherwise, as we've told everybody, we're going to hold our operating costs fairly constant going forward in the future.

<Q – William Plovanic>: Okay. That's all I have. Thanks a lot, guys.

<A – Dirk Kuyper>: Yes. Thanks, Bill.

Operator: [Operator Instructions] We'll go next to Bud Leedom, California Equity.

<A – Dirk Kuyper>: Hello.

Operator: One moment. Mr. Leedom, your line is open. Please go ahead with your question.

<Q – Bud Leedom>: Can you hear me?

<A – Dirk Kuyper>: Yes.

<Q – Bud Leedom>: Okay. Thanks for taking my question. I just had a couple of things. I guess first and foremost just back on the sales and marketing, obviously that was a larger sequential jump and you did mention that there was some rebranding involved. And I'm just wondering maybe not in terms of one-time items that are in there, but is this sort of a new baseline for sales and marketing or were there a number of activities there that may have been -- maybe somewhat one-time in nature just related to this rebranding as you discussed and maybe some of the cost that are brining on distributors?

<A – Peter Wulff>: Okay. I think just to clarify for the audience. If you look at the previously issued press release or 10-Q, you'll see a jump there from that report versus this report. When you see our 10-Q that is on file, those previous amounts for sales and marketing have been adjusted to be consistent to properly classify our sales and marketing expenses for Japan.

Having said that, we reported for the third quarter 2008, $4.8 million in sales and marketing expenses, compared to the second quarter, as adjusted on a comparable basis of about $4.9 million, so for second quarter 2008 to be clear. And then, compared to third quarter 2007, as I mentioned in my remarks as well as in the press release, the 4.8 for 2008 is $1 million increase approximately from the third quarter 2007 amount of 3.7.

So, when you're looking at it year-to-year, the increase has consistent rate increase for expanding our marketing infrastructure to support our growth and our product pipelines.

<Q – Bud Leedom>: Okay.

<A – Peter Wulff>: Long-winded answer, but...

<Q – Bud Leedom>: Okay. And related to gross margins, Peter, can you quantify the amount of royalty specific to the 678 settlement, that's in the third quarter number?

<A – Peter Wulff>: We usually don't breakout that level of detail, but I'm sorry, but we don't provide that level of granularity.

<Q – Bud Leedom>: Okay, and with some of the new products that were announced there at NAS, in terms of gross margins, is this going to improve the gross margin mix of your total products, or what do you expect from a pure impact standpoint on the new product?

<A – Peter Wulff>: Well, we do expect to see improvement in overall gross margins for these new product sales. On a contribution basis, they're fairly high and what they bring to our bottom-line additionally because of the new products and the increased sales volume that have contributes to our business and overall provides better absorption of our production cost for our facility as well.

<Q – Bud Leedom>: Okay. Okay and then, just for you Dirk, on the narrow monitoring that you discussed with GLIF. I was just wondering in terms of the technology that you're incorporating into it, can you give into maybe a little detail of this neuromonitoring system that you're bringing in or what type of prequalification or testing is going to be required prior to launch?

<A – Dirk Kuyper>: We're looking at it two ways Bud, one is, we want to have a rapid solution, so we don't have a delay in the release of GLIF, and so what we're doing is, going to provide a simple tool for surgeons to be able to monitor using standard, currently available monitoring systems, so it's really just an active ability for the retractors itself to be monitored.

So that basically is just a plug-and-play in the sense that we're not offering anything different other than the ability to use their standard equipment, as they have it today. So, we'll see no difference there.

Sort of more a long-term, we are looking at a potential opportunity in neuromonitoring. We – we haven't decided whether that something that we feel makes ultimate sense for us or not. Long-term, it really depends on how the technology pans out.

But that – we're decoupling that from GLIF in the sense that, we don't want to delay GLIF because of activities at looking at under our monitoring on a broader basis. So, short answer is we will have active prose that can be used with any of the currently available systems.

<Q – Bud Leedom>: Okay. Okay, great. And just finally Peter, do you have a CapEx figure for the quarter?

<A – Peter Wulff>: The capital spending for the third quarter is slightly under $10 million.

<Q – Bud Leedom>: Okay.

<A – Peter Wulff>: Year-to-date and so that's about $3 million for the quarter.

<Q – Bud Leedom>: Right. Okay. Great, thanks again.

<A – Dirk Kuyper>: Thank you.

<A – Peter Wulff>: You're welcome.

Operator: We have no further questions in the queue at this time. I'll turn the conference back over to Mr. Dirk Kuyper of any additional or closing remarks.

Dirk Kuyper, President and Chief Executive Officer

Okay. Thank you very much, operator. Clearly, we're very pleased with how the Alphatec team has come together. We see continued positive opportunities for the company, especially in the current environment, and we believe that Alphatec is uniquely positioned to take advantage of some of these opportunities, especially as it relates to expanding our distribution network.

We believe that we can continue to drive our growth through sales force, upgrades and expansion opportunities, through the filling of the core product line, which we're actively pursuing, and through continued surgeon conversions. So, the future looks very bright. I'd like to thank you all very much for you interest in Alphatec and for your participation on this call. And thank you, good bye.

Operator: That concludes today's conference. You may now disconnect at this time. We do appreciate your participation.