
MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Alphatec Spine, Incorporated Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Peter C. Wulff, Chief Financial Officer. Mr. Wulff, please go ahead, sir.

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

[audio gap] also preliminary 2008 revenues and guidance for 2009 revenue and earnings. My name is Peter Wulff and I serve as the Chief Financial Officer. And with me today are Dirk Kuyper, President and CEO, and Eburn Garner, General Counsel.

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

I'd like to mention to 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 this 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 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 these circumstances.

Risks and uncertainties may cause our actual results to differ materially from these projected in 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 subsequent quarterly reports on Form 10-Q and periodic filings on our 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 the U.S. copyright laws and any use or rebroadcast of – of all or in portion of this conference call may only be done with the express written permission.

I'd now like to hand over the call to Dirk Kuyper, Alphatec's President and CEO. Thank you.

Dirk Kuyper, President and Chief Executive Officer

Thank you, Peter. Good morning to everyone. Thank you for joining us. I hope that everyone had a nice holiday and I wish all of you a healthy and happy new year. At Alphatec Spine we continue to focus on expanding our core business product portfolio while developing and commercializing innovative products for treating conditions related to the aging spine.

Today we'd like to provide an update on our preliminary 2008 revenues and provide revenue and earning guidance for 2009. Despite the fact that this is not our normal business course, it's a preannounce revenues, we would like to announce our fourth quarter 2008 revenues and full-year 2008 revenues, so that we can provide additional context for our 2009 guidance.

With that in mind, we are extremely pleased to announce that based on preliminary financial data the company will report record revenues for the fourth quarter of 2008 of approximately \$28.4 million, which is an increase of 33% over the fourth quarter 2007 revenues.

For the full-year 2008, the company will report record revenues of approximately 101.2 million, an increase of 26.5% over full-year 2007. The preliminary fourth quarter 2008 revenues represent the

sixth consecutive quarter of record revenue growth and an accelerating quarterly growth over prior periods.

The company projects 2009 revenues to be between 123 and 125 million, full-year 2009 adjusted EBITDA to be between 12 million and 14 million. The company is also providing guidance for positive adjusted EBITDA as of the first quarter of 2009 and expects to be EPS positive in the third quarter of 2009.

Turning to the U.S., our U.S. sales distribution network continues to improve, both in terms of absolute growth and dedication. We have improved the ratio of exclusive spine distributors to over 70% of our total distribution network. Our company goal was to have 60% exclusive spine distributors by the end of 2008.

In the fourth quarter, we were able to add some key new distributors, which will help us drive our growth in 2009. We now have over 85 total distributor organizations in the U.S, which we believe, represent over 240 individual feet on the street or sales representatives. This is an increase from year-end 2007 of approximately 33%.

Also, the number of physicians consistently using our products has grown approximately 30% since the end of 2007. At any point in time, we have more than 400 physician customers that are consistently utilizing our spine products in their medical practice. This provides us a solid platform for sales expansion as we release new products into 2009.

During the first quarter – I'm sorry – during the fourth quarter of 2008, we shipped our first commercial order for the OsseoFix Spinal Fracture Reduction System to Europe. As we previously announced last month, we held our initial clinical training in Europe with leading spine surgeons on the use of the OsseoFix system for treating vertebral compression fractures. Over 30 participants, including physicians and selected distributors were in attendance in Austria at the University of Vienna where they received hands-on cadaver lab training on the safe and effective use of the OsseoFix system. These physicians and distributors represented a number of countries in Europe, including the Benelux, Denmark, Greece, Italy, and Turkey.

In addition, last month, we announced the completion of a \$30 million credit facility. This financing gives us the ability to pursue our business strategy in the aging spine market and core spinal fusion market, including continued expansion in the U.S. and of our European distribution network. We are pleased that our business provides us with the ability to raise capital on reasonable terms in this current financial environment.

In closing, we are looking forward to a prosperous year at Alphatec Spine. We believe we are well positioned with our broad product offering and distribution network to continue to expand our market share and continue with our annual growth rate that is greater than 20%, despite the fact that the U.S. and the rest of world remains fixed in a difficult economic environment.

We plan to continue expanding and upgrading our distribution network, improving the quality and the size of our core product portfolio, and expanding our presence internationally in Europe and Asia. With the commercialization of the OsseoFix system in Europe, we are proud to provide the physician and patient communities with our first aging spine product that we feel is superior and addresses conditions of the aging spine.

That concludes the prepared remarks. So, thank you. And we'd like to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions]. And for our first question, we go to Vivian Cervantes with Rodman & Renshaw.

<Q – Vivian Cervantes>: Hi, good morning. Thank you for taking the question.

<A – Dirk Kuyper>: Hi, Vivian. Good morning.

<Q – Vivian Cervantes>: I'll start off by asking about OsseoFix. You had mentioned in your prepared remarks that you began to ship products in Europe in the fourth quarter. Can you give us a sense of how significant this is? I mean, is it a good start? Is it a meaningful number?

<A – Dirk Kuyper>: This was the initial stocking order from one of the European distributors that we have signed up. And it was a relatively good order. What we are very encouraged by is since the lab in Vienna, we have started doing trial cases in several other countries. So we expect the momentum to continue to build. So we're extremely encouraged by what we've seen with OsseoFix so far in Europe. And think that it – for the full year, it could be a fairly meaningful number, yes.

<Q – Vivian Cervantes>: Okay. So the reception following Vienna and so on and so forth has been positive on the device and the procedural approach and all that?

<A – Dirk Kuyper>: Yes, yes. And we've already had what – we've already had another, I wouldn't call it a training session. But in Turkey, there was a fairly large congress and 60 surgeons got to see OsseoFix in action in a live surgery that was televised. It went extremely well. And we have cases now pending in a couple of other countries as well.

<Q – Vivian Cervantes>: Okay. Good to hear. I'm going to shift gears to the U.S. From, I guess, the 240 or so feet on the street, any comments that you can share with us regarding the macro and how that's affecting their ability to perform in any budget...

<A – Dirk Kuyper>: Okay.

<Q – Vivian Cervantes>: ...for the top line.

<A – Dirk Kuyper>: Sure. Obviously, it's a tough economic time. What we have not seen is a significant change in procedural volumes from our customers. So that seems to be holding fairly steady. Where there is some pressure is both more aggressive pricing pressure from the customers trying to get discounts, and the second would be in terms of their payments. They're stretching out their payables, understandable to some extent.

So those are really the only two impacts we've seen so far in terms of actual procedures. And certainly as we talk to surgeons, we're asking them about sort of their procedural volume, what they see going on. And they've really not seen slowdown of any significance from our viewpoint.

<Q – Vivian Cervantes>: Okay. So, I guess, this sort of feedback is wrapped around the guidance that you have for 2009?

<A – Dirk Kuyper>: Yes, yeah. We've certainly incorporated that into the guidance.

<Q – Vivian Cervantes>: Okay. And will this '09 number – if you can split that between the core business for the classic spine versus some of the newer products, would that be – how would you characterize that split?

<A – Dirk Kuyper>: We've tried to be extremely conservative in terms of the aging spine products. Obviously, we do have expectations out of Europe, certainly for OsseoFix. We do intend for OsseoScrew to hit the market during this year. So certainly those have been factored in, but I would say they're minor.

So we're really – this forecast is built on primarily the products that we released and announced and our core – our product portfolio. We do have some additional products launching in 2009, such as a complete A – Lift System, it should be out in the spring. So those are incorporated in there as well.

<Q – Vivian Cervantes>: Okay. That's good. My last question. Understanding that there is some pricing pressures and maybe some stretch payables and such. And then, I'm sort of overlaying that with your expectations of an improving profitability as we go through '09. Can you give us a sense of how you sort of balance that out from gross margins and maybe SG&A build and so on and so forth?

<A – Dirk Kuyper>: Well, we're focused and we have been in the last year on both cost reduction and in manufacturing, improved efficiency. And we think we've come a long way in that regard. And we have some new – we're continuing to look at that very heavily. And we announced previously that our intention was to hold sort of operating costs for '09 at the '08 levels. And that is certainly built into our plan.

<Q – Vivian Cervantes>: Okay. This is very helpful. Thank you. I'll get back into queue.

Operator: And for our next question we go to Tao Levy with Deutsche Bank.

<Q>: Yeah, hi. Hi, guys. It's Seth for Tao. How are you doing?

<A – Dirk Kuyper>: Good, how are you?

<A – Peter Wulff>: Good morning, Seth

<Q>: Hi, good morning. So just a couple of quick questions, one, is just kind of minor housekeeping. Your adjusted EBITDA, I mean, are you adjusting for stock comp? Is that the only major adjustment versus traditional EBITDA?

<A – Peter Wulff>: Yeah. This is Peter. The adjusted EBITDA would be consistent with how we had reported it in the third quarter, which would – adding back, as you said, equity-based compensation, we would also add back the one-time non-recurring costs we would potentially incur for in-process research and development. And then for 2008, we did also add back the DePuy litigation settlement. Those would be the only non-recurring type items that we would add back in addition to stock-based compensation.

<Q>: Okay. And on the exclusive distributors, did you – I didn't hear if you said a percentage that was exclusive. And what do you attribute your success to in getting these distributors to jump on board, because it seems like you've gone up considerably this year?

<A – Peter Wulff>: Yes. The number was 70%.

<Q>: Okay. Thank you.

<A – Dirk Kuyper>: Is where we ended the year. It's – I think, in 2008 we were able to add a fairly large number of new distributors from a number of different – in a number of different areas and from a number of different other companies. And as we bring on any new distributor, they really all

come on as exclusive distributors, where we no longer will take on anyone who doesn't agree to that.

So certainly that's helped swing that percentage and then also as the contracts renew. So I think it's a combination, obviously, we've improved and expanded our product lines. We have a little more clout in terms of ability to ask for exclusivity. It's really not been our practice to increase rates significantly in order to get that exclusivity. So I think it's really just a product of the new distributors and our ability to sort of add back concession based on where the company is going.

<Q>: And is there any like balance sheet item or a retention mechanism that you put in place and, I don't know, like some kind of retainer for these distributors? Or is it all just based on commissions and sales and --

<A – Dirk Kuyper>: In a couple of cases, we've had to offer some draws against commission to get them going, if that's your question?

<Q>: Yeah.

<A – Dirk Kuyper>: But that's been relatively infrequent. And that's really about the only mechanism we've used.

<Q>: Okay. One last one, then, I'll just jump in. The capital, the access to capital, can you just hash out the terms in just briefly?

<A – Peter Wulff>: Okay, yeah. The credit facility that we completed in early December consists of two components of \$15 million each. First of all, the total facility is due April 1, 2011. And one component of \$15 million is effectively a working capital line of credit, which is drawn-off of our eligible accounts receivable and inventory. The second one is a term loan, a growth capital term loan, of \$15 million. So that's the breakdown of it.

<Q>: And the terms?

<A – Peter Wulff>: Well, it's all due, as I mentioned, April 2011.

<Q>: The interest rate?

<A – Peter Wulff>: Interest rates, the revolver is several – I don't recall, from here. I think it's about 250 basis points over the prime rate. And then the interest rate for the term loan is fixed. On average, that rate is in the low teens, I want to say about 10 to 11%.

<Q>: Okay. Thank you.

Operator: For our next question, we go to Bill Plovanic with Canaccord Adams.

<Q – William Plovanic>: Great. Thank you. Good morning.

<A – Dirk Kuyper>: Good morning, Bill.

<Q – William Plovanic>: First of all, congratulations. You guys continue to do well. A couple set of questions here. First, relative to CapEx, what do you view as CapEx for 2009? And if you could split that between PP&E and your instrument sets?

<A – Peter Wulff>: Okay. The CapEx that we would see for '09 would be consistent with what we've been incurring in the last several quarters in '08. So we're fairly holding the line there on the total of it. The majority of it is for growing out the instrument sets that we have necessary to support

the growth in the marketplace. We do expect the PP&E amount to decline slightly in '09 as the majority of our build-out has been completed for our facilities move.

<Q – William Plovanic>: Peter, I don't have – I'm on the road. So I don't have all my numbers in front of me. Can you quantify that?

<A – Peter Wulff>: Okay. So the instrument sets would be somewhere between, I would say 8 to \$10 million as the range.

<Q – William Plovanic>: Okay.

<A – Peter Wulff>: And then for PP&E, it's going to be, let's say between 2 to \$3 million.

<Q – William Plovanic>: Okay. So net, net, if you're guiding to EBITDA of 12 to 14 million. It sounds like you're actually going to be cash flow positive this year – pre your working capital needs?

<A – Peter Wulff>: And that's pre debt service cost as well.

<Q – William Plovanic>: Right, okay. So you're getting there. The next question is, did you – you're providing 2009 guidance, we have fourth quarter '08. Any preliminary, I know it's early, but any preliminary guidance on first quarter 2009 as we put our numbers together? And I ask that only because as I look at first quarter 2008 from fourth quarter '07, it was a sequential increase of 9%. In the prior year, it was a sequential increase of only 2%. So we don't have a lot of history to go off of. Should it be closer like between that, maybe 3 to 5% sequential increase, is it flat? I mean, how would you model this?

<A – Peter Wulff>: Well, we're not giving specific guidance on a quarterly basis. I think what I would ask for you all to do is, kind of look at how we've grown business over the last five to six quarters. And I mean, may be the easiest way is to look at it. I mean we expect to continue a 20% growth rate year-over-year. And that might be an easier way to sort of look at it. Obviously we had a big fourth quarter. We do expect continued improvement. We added five new distributor organizations in the fourth quarter. So that clearly should have a positive impact in the first quarter.

<Q – William Plovanic>: Okay, that's helpful. Just, you have an easy comp in the first quarter and the comps get tougher as you roll through the years. That's way I asked the question. And you mentioned that OsseoFix could be meaningful internationally as the European distributors pick up. Is that meaningful, is that baked in the guidance? And I know this question was asked earlier, but we're basically looking at 123 to 125 is based on the core products and then OsseoFix, GLIF, OsseoScrew, that's kind of all upside. Is that how we should look at the guidance?

<A – Peter Wulff>: That number is primarily based on our core products. So we've been extremely conservative. Obviously, we've not quite met the development timeline that we initially put out. So we've tried to be extremely conservative with the aging spine products, especially that relates to the U.S. market. So we have baked some OsseoFix into our plan for international, but it is not a significant number, if that helps.

<Q – William Plovanic>: Okay. And then last question. Do you have a fourth quarter earnings release date for the final numbers?

<A – Dirk Kuyper>: We have not determined one yet. The range would be late February timeframe.

<Q – William Plovanic>: All right, great. Thanks and congratulations.

<A – Dirk Kuyper>: Thanks, Bill.

Operator: And we go next to Julie Hoggatt with Noble Financial.

<Q – Julie Hoggatt>: Hi, guys. Congratulations on the revenue. My first question is can you give us an idea as to where you are with the 510(k) filings of the OsseoScrew and the GLIF?

<A – Dirk Kuyper>: We are proceeding. I think I mentioned in our third quarter call that OsseoScrew was a significant technological challenge. We have made some significant breakthroughs in the last couple of months, specifically in the last month. And are feeling very good about that product.

So we have not submitted the 510(k) as of today, but we are making significant progress. We overcame what we – significant hurdle that we had on that product and now are feeling extremely confident about it. So we expect to submit it relatively soon. On GLIF, I think I had mentioned in the last call that we had put additional resources on the GLIF. It is moving ahead very strongly. So again, that is a very simple product.

In terms of the regulatory process, because it really just involves primarily the self, which is a standard interbody implant. So we don't anticipate any issues with that product. And certainly we'll be expect to submit that relatively, the testing is ongoing right now, should we complete it relatively quickly. So it should be in with the FDA in very short order.

<Q – Julie Hoggatt>: When we say very short order, you're expecting in the next three or four months for both of those products?

<A – Dirk Kuyper>: You mean, in terms of submission or release?

<Q – Julie Hoggatt>: Submission, right. That's in case submission.

<A – Dirk Kuyper>: Submission will be sooner than that in both cases.

<Q – Julie Hoggatt>: So second half approval at some point for both of those is a reasonable expectation?

<A – Dirk Kuyper>: Yes.

<Q – Julie Hoggatt>: Okay. And can you give us an idea of what your international revenues were in the fourth quarter?

<A – Peter Wulff>: Well, out of the 28.4 million, the amount recorded would be approximately – slightly over \$1.5 million.

<A – Dirk Kuyper>: For Europe.

<A – Peter Wulff>: For Europe only.

<Q – Julie Hoggatt>: Okay. Can you break it out?

<A – Peter Wulff>: That was for Europe.

<Q – Julie Hoggatt>: Okay. That's what I was focusing on. Okay, thank you.

Operator: And with that ladies and gentlemen, we have no further questions on our roster. Therefore Mr. Kuyper, I'll turn the conference back over to you for any closing remarks.

Dirk Kuyper, President and Chief Executive Officer

Okay. Thank you again to all of you for joining us for this call. We're very excited about the future and our prospects at Alphatec Spine. The team has really come together and solidified into what I think is one of the premier teams in the spine market. We're looking forward to sharing our successes with you going forward. We have a very exciting year on tap for 2009 with major product releases as well as continued expansion of our distribution network both in the U.S. and internationally.

So again, thank you very much. And we look forward to sharing our successes with you going forward.

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