

MIMEDX GROUP, INC.
Form 10-K/A
February 22, 2017

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

FORM 10-K/A

(Amendment No.1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

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 001-35887

MIMEDX GROUP, INC.

(Exact name of registrant as specified in its charter)

Florida

26-2792552

(State or other jurisdiction of incorporation)

(I.R.S. Employer Identification Number)

1775 West Oak Commons Court, NE Marietta, GA

30062

(Address of principal executive offices)

(Zip Code)

(770) 651-9100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$0.001 per share

Securities registered pursuant to Section 12(g) of the Act: None

(Title of class)

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

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 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 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 Smaller reporting Company

(Do not check if a 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

The aggregate market value of Common Stock held by non-affiliates on June 30, 2015, based upon the last sale price of the shares as reported on the NASDAQ on such date, was approximately \$1,135,614,000. There were 107,810,490 shares of Common Stock outstanding as of February 10, 2016.

EXPLANATORY NOTE

The sole purpose of this amendment is to file to correct the typographical date error in the attestation report dated February 29, 2016 from Cherry Bekaert LLP, our independent registered public accounting firm, that was included in the Form 10-K for the year ended December 31, 2015. The report included in the original Form 10-K filing included the typographical date error in the body of the report, which referenced internal control over financial reporting as of December 31, 2014, rather than December 31, 2015. As part of this amendment and as required, we are refiling "Item 8. Financial Statements and Supplementary Data" in its entirety. Other than correcting the typographical date error in the Report of Independent Registered Public Accounting Firm, we have made no changes to Item 8 or the remainder of the Form 10-K.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of MiMedx Group, Inc.

We have audited the accompanying consolidated balance sheets of MiMedx Group, Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years ended in the period ended December 31, 2015. We have also audited the accompanying consolidated financial statement schedule for each of the three years in the period ended December 31, 2015 listed in the index at Item 15. These consolidated financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 MiMedx Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related consolidated financial statement schedule for each of the three years in the period ended December 31, 2015, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MiMedx Group, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2016 expressed an unqualified opinion.

/s/ Cherry Bekaert LLP

Atlanta, Georgia

February 29, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of MiMedx Group, Inc.

We have audited MiMedx Group, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). MiMedx Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

In our opinion, MiMedx Group, Inc maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MiMedx Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 and the related consolidated financial statement schedules as of December 31, 2015, 2014 and 2013, and our report dated February 29, 2016 expressed an unqualified opinion.

/s/ Cherry Bekaert
LLP

Atlanta, Georgia

February 29, 2016

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MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$28,486	\$46,582
Short term investments	3,000	5,750
Accounts receivable, net	53,755	26,672
Inventory, net	7,460	5,133
Prepaid expenses and other current assets	3,609	1,540
Total current assets	96,310	85,677
Investments	—	3,250
Property and equipment, net of accumulated depreciation	9,475	5,447
Goodwill	4,040	4,040
Intangible assets, net of accumulated amortization	10,763	10,845
Deferred tax asset, net	14,838	—
Deferred financing costs and other assets	487	—
Total assets	\$135,913	\$109,259
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$6,633	\$3,661
Accrued compensation	15,034	11,523
Accrued expenses	4,644	2,504
Other current liabilities	466	716
Total current liabilities	26,777	18,404
Other liabilities	1,148	1,526
Total liabilities	27,925	19,930
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock; \$.001 par value; 5,000,000 shares authorized and 0 shares issued and outstanding	—	—
Common stock; \$0.001 par value; 150,000,000 shares authorized; 109,467,416 issued and 107,361,471 outstanding at December 31, 2015 and 108,776,247 issued and 107,789,611 outstanding at December 31, 2014	109	108
Additional paid-in capital	163,133	162,433
Treasury stock at cost:		
2,105,945 shares at December 31, 2015 and 986,636 shares at December 31, 2014	(17,125)	(5,637)
Accumulated deficit	(38,129)	(67,575)
Total stockholders' equity	107,988	89,329
Total liabilities and stockholders' equity	\$135,913	\$109,259
See notes to consolidated financial statements		

MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Years Ended December 31,		
	2015	2014	2013
Net sales	\$187,296	\$ 118,223	\$ 59,181
Cost of sales	20,202	12,665	9,328
Gross margin	167,094	105,558	49,853
Operating expenses:			
Research and development expenses	8,413	7,050	4,843
Selling, general and administrative expenses	133,384	90,480	46,227
Impairment of intangible assets	—	—	368
Amortization of intangible assets	933	928	1,054
Operating income (loss)	24,364	7,100	(2,639)
Other income (expense), net			
Amortization of debt discount	—	—	(1,328)
Interest expense, net	(86)	(48)	(45)
Income (loss) before income tax provision	24,278	7,052	(4,012)
Income tax provision	5,168	(832)	(100)
Net income (loss)	\$29,446	\$ 6,220	\$ (4,112)
Net income (loss) per common share - basic	\$0.28	\$ 0.06	\$ (0.04)
Net income (loss) per common share - diluted	\$0.26	\$ 0.05	\$ (0.04)
Weighted average shares outstanding - basic	105,929,205	105,793,008	96,285,504
Weighted average shares outstanding - diluted	113,628,482	113,295,504	96,285,504

See notes to consolidated financial statements

MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated	
	Shares	Amount		Shares	Amount	Deficit	Total
Balances, December 31, 2012	88,423,169	\$ 88	\$ 89,627	50,000	\$(25)	\$(69,683)	\$ 20,007
Share-based compensation expense	—	—	6,010	—	—	—	6,010
Exercise of stock options	1,958,674	2	1,979	—	—	—	1,981
Exercise of warrants	1,844,352	2	2,106	—	—	—	2,108
Common stock issued for 5% convertible note	5,272,004	5	5,267	—	—	—	5,272
Common stock issued for earn - out liability	1,174,915	1	5,791	—	—	—	5,792
Issuance of restricted stock	2,500	—	—	—	—	—	—
Public offering of common stock, net of expenses	5,750,000	6	36,504	—	—	—	36,510
Net income (loss)	—	—	—	—	—	(4,112)	(4,112)
Balances, December 31, 2013	104,425,614	\$ 104	\$ 147,284	50,000	\$(25)	\$(73,795)	\$ 73,568
Share-based compensation expense	—	—	11,453	—	—	—	11,453
Exercise of stock options	1,653,690	2	2,468	—	—	—	2,470
Exercise of warrants	1,242,416	1	1,112	—	—	—	1,113
Issuance of restricted stock	1,438,569	1	(1)	—	—	—	—
Shares issued for services performed	15,958	—	117	—	—	—	117
Stock repurchase	—	—	—	936,636	(5,612)	—	(5,612)
Net income	—	—	—	—	—	6,220	6,220
Balance December 31, 2014	108,776,247	\$ 108	\$ 162,433	986,636	\$(5,637)	\$(67,575)	\$ 89,329
Share-based compensation expense	—	—	16,896	—	—	—	16,896
Tax benefit of share-based compensation expense	—	—	7,757	—	—	—	7,757
Exercise of stock options	647,656	1	(9,792)	(1,573,225)	14,420	—	4,629
Exercise of warrants	—	—	(379)	(42,400)	425	—	46
Issuance of restricted stock	34,250	—	(14,547)	(1,940,009)	14,547	—	—
Restricted stock shares canceled/forfeited	(2,058)	—	652	69,949	(652)	—	—
Shares issued for services performed	11,321	—	113	(5,172)	51	—	164
Stock repurchase	—	—	—	4,610,166	(40,279)	—	(40,279)
Net income	—	—	—	—	—	29,446	29,446
Balances, December 31, 2015	109,467,416	\$ 109	\$ 163,133	2,105,945	\$(17,125)	\$(38,129)	\$ 107,988

See notes to consolidated financial statements

MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income (loss)	\$29,446	\$6,220	\$(4,112)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation	1,799	1,197	637
Loss on fixed asset disposal	—	—	37
Amortization of intangible assets	933	928	1,054
Impairment of intangible assets	—	—	368
Amortization of debt discount and deferred financing costs	42	—	1,328
Share-based compensation	16,896	11,453	6,010
Change in deferred income taxes	(7,081)	—	—
Increase (decrease) in cash resulting from changes in:			
Accounts receivable	(27,083)	(10,579)	(8,439)
Inventory	(2,327)	(1,252)	(858)
Prepaid expenses and other assets	(2,094)	(203)	(637)
Accounts payable	3,136	1,287	1,209
Accrued compensation	3,511	5,935	2,836
Accrued expenses	2,140	1,098	353
Accrued interest	—	—	(42)
Other liabilities	(511)	718	(28)
Net cash flows from operating activities	18,807	16,802	(284)
Cash flows from investing activities:			
Purchases of equipment	(5,827)	(2,558)	(2,337)
Maturity (purchases) of fixed maturity securities	6,000	(9,000)	—
Patent application costs	(851)	(594)	(689)
Net cash flows from investing activities	(678)	(12,152)	(3,026)
Cash flows from financing activities:			
Proceeds from exercise of stock options	4,629	2,470	1,981
Proceeds from exercise of warrants	46	1,113	2,108
Proceeds from public offering, net of expenses	—	—	36,602
Deferred financing costs	(504)	—	—
Stock repurchase	(40,279)	(5,612)	—
Principal payments of equipment leases	(117)	(117)	(57)
Net cash flows from financing activities	(36,225)	(2,146)	40,634
Net change in cash	(18,096)	2,504	37,324
Cash and cash equivalents, beginning of period	46,582	44,078	6,754
Cash and cash equivalents, end of period	\$28,486	\$46,582	\$44,078
See notes to consolidated financial statements			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2015 AND 2014

1. Nature of Business

MiMedx Group, Inc. (“MiMedx,” “the Company,” “we,” or “us”) operates in one business segment, Regenerative Biomaterials, which includes the development, processing and marketing of regenerative biomaterial products and bioimplants processed from human amniotic membrane and other birth tissues in the Wound Care, Surgical, Sports Medicine, Ophthalmic and Dental market categories. The Company's biomaterial platform technologies include tissue technologies, AmnioFix and EpiFix, amniotic fluid derived allograft, OrthoFlo, and anticipated device technology CollaFix, which the Company has yet to commercialize.

The Company is focused primarily on the United States but is actively exploring international expansion opportunities. The adoption of the technologies may vary depending on each country's regulations, but the opportunities to help individuals in the different disease states remain similar and large.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) 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 financial statements and the reported consolidated statements of operations during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying financial statements include the accounts of MiMedx Group, Inc. and its wholly-owned subsidiaries MiMedx, Inc., MiMedx Processing Services, LLC (formerly known as SpineMedica, LLC), and MiMedx Tissue Services, LLC (formerly known as Surgical Biologics, LLC). All significant inter-company balances and transactions have been eliminated.

Segment Reporting

ASC 280, “Segment Reporting” requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company has determined it has one operating segment. Disaggregation of the Company's operating results is impracticable, because the Company's research and development activities and its assets overlap, and management reviews its business as a single operating segment. Thus, discrete financial information is not available for more than one operating segment.

Market Concentrations and Credit Risk

The Company places its cash and cash equivalents on deposit with financial institutions in the United States. In July 2010, the Federal Deposit Insurance Corporation (“FDIC”) increased coverage to \$250,000 for substantially all depository accounts. As of December 31, 2015 and 2014, the Company had cash and cash equivalents of approximately \$27,700,000 and \$44,600,000, respectively, in excess of the insured amounts.

The Company's principal market concentration of risk is related to its limited distribution channels. The Company's revenues include the distribution efforts of several independent companies as well as the Company's internal sales force. Significant revenues are derived from the Company's relationship with one of its distributors, AvKare, Inc. which sells our products to the Federal Government. For the years ended December 31, 2015, 2014 and 2013, AvKare revenue was approximately 24%, 34%, and 56%, of total revenue, respectively. Related receivables for the years ended December 31, 2015 and 2014 were approximately 26%, and 33%, of total accounts receivable, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include cash and FDIC insured certificates of deposit held at various banks with an original maturity of three months or less.

Accounts Receivable

Accounts receivable represent amounts due from customers for which revenue has been recognized. Generally, the Company does not require collateral or any other security to support its receivables.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing receivables. The Company determines the allowance based on factors such as historical collection experience, customers' current creditworthiness, customer concentrations, age of accounts receivable balance and general economic conditions that may affect the customers' ability to pay.

Investments

Investments consist of FDIC insured certificates of deposit held at various banks and are classified as either Short term investments or Investments depending on their maturity date and are valued at cost, which approximates market value.

Inventories

Inventories are valued at the lower of cost or market, using the first-in, first-out (FIFO) method. Inventory is tracked through Raw Material, WIP, and Finished Good stages as the product progresses through various production steps and stocking locations. Labor and overhead costs are absorbed through the various production processes up to when the work order closes. Historical yields and normal capacities are utilized in the calculation of production overhead rates. Reserves for inventory obsolescence are utilized to account for slow-moving inventory as well as inventory no longer needed due to diminished market demand.

Goodwill and Purchased Intangible Assets

Goodwill and purchased intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. The Company reviews goodwill and purchased intangible assets with indefinite lives for impairment annually at the beginning of its fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Potential impairment indicators include a significant change in the business climate, legal factors, operating performance indicators, competition, and the sale or disposition of a significant portion of the business. The Company first assesses certain qualitative factors to determine whether the existence of events or circumstances would indicate that it is more likely than not that the fair value of the Company was less than its carrying amount. If after assessing the totality of events or circumstances, the Company were to determine that it is more likely than not that the fair value of the Company is less than its carrying amount, then the Company would perform a two-step quantitative impairment testing. In the first step, the Company compares the fair value of the Company to its carrying value. The Company determines the fair value utilizing the market approach. Under the market approach, the Company uses its market capitalization which is calculated by taking the Company's share price times the number of outstanding shares. If the fair value of the Company exceeds the carrying value of the net assets, goodwill is not impaired, and no further testing is required. If the fair value of the Company is less than the carrying value, the Company must perform the second step of the impairment test to measure the amount of impairment loss, if any. In the second step, the Company's value is allocated to all of the assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the Company was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss.

Impairment of Intangible Assets with Finite Lives

The Company reviews purchased intangible assets with finite lives for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable using a two-step impairment test. In step one, we determine the sum of the undiscounted future cash flows of the assets based on management's estimates and compare it to the carrying value of the assets. If the carrying amount is greater than the sum of the undiscounted cash flows, then the asset is impaired and step two is required. In step two, the impairment loss is calculated as the difference between the fair value of the assets and the carrying value of the assets.

Impairment reviews are based on an estimated future cash flow approach that requires significant judgment with respect to future revenue and expense growth rates, selection of appropriate discount rate, asset groupings, and other assumptions and estimates. The Company uses estimates that are consistent with our business plans and a market participant view of the assets being evaluated. Actual results may differ from our estimates.

During the fourth quarter of 2013, the Company chose to discontinue the HydroFix product line. This action resulted in an impairment charge of approximately \$368,000 related to the Licenses for SaluMedica LLC, Spine Repair and Polyvinyl

Alcohol Cryogel. This item is included in our Statement of Operations for the year ended December 31, 2013. An impairment charge of approximately \$1,800,000 had previously been booked in 2012.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, principally three to seven years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful lives or the life of the lease. The Company is party to various lease arrangements for its facility space and equipment. These arrangements include interest, scheduled rent increases and rent holidays which are included in the determination of minimum lease payments when assessing lease classification, and are included in rent expense on a straight line basis over the lease term. See Notes 7 and 16 for further information regarding capital leases, operating leases and rent expense.

Patent Costs

The Company incurs certain legal and related costs in connection with patent applications for tissue based products and processes. The Company capitalizes such costs to be amortized over the expected life of the patent to the extent that an economic benefit is anticipated from the resulting patent or alternative future use is available to the Company. The Company capitalized approximately \$851,000 of patent costs during 2015, \$594,000 of patent costs during 2014 and \$689,000 of patent costs during 2013.

Impairment of Long-lived Assets

The Company evaluates the recoverability of its long-lived assets (property and equipment) whenever adverse events or changes in business climate indicate that the expected undiscounted future cash flows from the related assets may be less than previously anticipated. If the net book value of the related assets exceeds the expected undiscounted future cash flows of the assets, the carrying amount would be reduced to the present value of their expected future cash flows and an impairment loss would be recognized. During the fourth quarter of 2013, the Company chose to discontinue the HydroFix product line. This action resulted in a disposal loss of approximately \$30,000. This item is included in the Consolidated Statements of Operations for the year ended December 31, 2013, as Selling, General and Administrative expenses.

Grant Income

The Company received a Regional Economic Business Assistance ("REBA") grant in the amount of \$250,000 from the State of Georgia to help the Company defray certain expenses and capital expenditures related to the Company's expansion of manufacturing activities in the State. In order to retain the grant monies the Company was required to add a certain number of full time positions and spend a certain amount on capital and operations expenditures by December 31, 2014. As of December 31, 2013, the Company had satisfied the grant requirements. Accordingly, the Company recorded the \$250,000 as a reduction of Selling, General and Administrative expenses in the accompanying 2013 Consolidated Statements of Operations.

Revenue Recognition

The Company sells its products primarily through a combination of a direct sales force, independent stocking distributors and third - party representatives in the U.S. and independent distributors in international markets. The Company recognizes revenue when title to the goods and risk of loss transfers to customers, provided there are no material remaining performance obligations required of the Company or any matters of customer acceptance. In cases where the Company utilizes distributors or ships products directly to the end user, it recognizes revenue according to the shipping terms of the agreement provided all revenue recognition criteria have been met. A portion of the Company's revenue is generated from inventory maintained at hospitals or with field representatives. For these products, revenue is recognized at the time the product has been used or implanted. The Company records estimated sales returns, discounts and allowances as a reduction of net sales in the same period revenue is recognized.

Research and Development Costs

Research and development costs consist of direct and indirect costs associated with the development of the Company's technologies. These costs are expensed as incurred.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements.

Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Share-based Compensation

The Company accounts for its share-based compensation plans in accordance with FASB ASC topic 718 "Compensation- Stock compensation". FASB ASC 718 requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors, including employee stock options, restricted stock and warrants. Under the provisions of FASB ASC 718, and U. S. Securities and Exchange Commission Staff Accounting Bulletin No. 107, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense on a straight line basis over the requisite service period of the entire award (generally the vesting period of the award).

Fair Value of Financial Instruments

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature and type of these instruments. These financial instruments include cash and cash equivalents, accounts receivable, short term investments, accounts payable and accrued expenses. The carrying cost of the Company's investments also reflects their fair values due to the type of these investments and the fair value of capital leases approximates their carrying value based upon current rates available to the Company.

Fair Value Measurements

The Company records certain financial instruments at fair value, including: cash equivalents, short term investments and investments. The Company may make an irrevocable election to measure other financial instruments at fair value on an instrument-by-instrument basis; although as of December 31, 2015, the Company has not chosen to make any such elections. Fair value financial instruments are recorded in accordance with the fair value measurement framework.

The Company also measures certain non-financial assets at fair value on a non-recurring basis. These non-recurring valuations include evaluating assets such as long-lived assets, and non-amortizing intangible assets for impairment; allocating value to assets in an acquired asset group, and accounting for business combinations. The Company uses the fair value measurement framework to value these assets and reports these fair values in the periods in which they are recorded or written down.

The fair value measurement framework includes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair values in their broad levels. These levels from highest to lowest priority are as follows:
• Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

• Level 2: Quoted prices in active markets for similar assets or liabilities or observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

• Level 3: Unobservable inputs or valuation techniques that are used when little or no market data is available.

The determination of fair value and the assessment of a measurement's placement within the hierarchy require judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management

estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method

used. Such assumptions could include: estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist it in determining fair value, as appropriate.

Although the Company believes that the recorded fair value of its financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

Recently Issued Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, "Revenue Recognition - Revenue from Contracts with Customers" (ASU 2014-09) that requires companies to recognize revenue when a customer obtains control rather than when companies have transferred substantially all risks and rewards of a good or service. This update is effective for annual reporting periods beginning on or after December 15, 2017 and interim periods therein and requires expanded disclosures. The Company is currently assessing the impact the adoption of ASU 2014-09 will have on its consolidated financial statements.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The Company has adopted this standard, prospectively, at the beginning of the fourth quarter 2015 to simplify reporting with the release of the valuation allowance as disclosed in Note 13. Prior periods were not retrospectively adjusted.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. ASU 2016-02 is effective for public companies for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

All other ASUs issued and not yet effective for the year ended December 31, 2015, and through the date of this report, were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's financial position or results of operations.

3. Liquidity and Capital Resources

Net Working Capital

As of December 31, 2015, the Company had approximately \$28,486,000 of cash and cash equivalents. The Company reported total current assets of approximately \$96,310,000 and current liabilities of approximately \$26,777,000 and had net working capital of approximately \$69,533,000.

Overall Liquidity and Capital Resources

The Company's largest cash requirement for the twelve months ended December 31, 2015 was cash for general working capital needs. In addition, the Company's other cash requirements included capital expenditures, and repurchases of the Company's common stock. The Company funded its cash requirements through its existing cash reserves, and its operating activities which generated approximately \$18,807,000 during the period. The Company believes that its anticipated cash from operating and financing activities and existing cash and cash equivalents as well as its investments in FDIC insured certificates of deposit will enable the Company to meet its operational liquidity needs and fund its planned investing activities for the next year. In addition, on October 12, 2015, the Company entered into a new three-year \$50 million senior secured revolving credit facility, which provides additional liquidity.

4. Cash Equivalents and Short Term Investments

Included in Cash and cash equivalents as of December 31, 2014, were approximately \$1,250,000 of FDIC insured certificates of deposit held with various U.S. financial institutions. Short term investments at December 31, 2015 and 2014 consist of approximately \$3,000,000 and \$5,750,000, respectively, of FDIC insured certificates of deposits held with various financial institutions. The cost of these instruments approximates their fair market value.

5. Inventories

Inventories consisted of the following items as of December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	2014
Raw materials	\$602	\$255
Work in process	3,850	3,419
Finished goods	3,405	1,986
Inventory, gross	7,857	5,660
Reserve for obsolescence	(397)	(527)
Inventory, net	\$7,460	\$5,133

6. Investments

Investments consisted of FDIC insured certificates of deposit with various U.S. financial institutions. The balance as of December 31, 2015 was zero and the balance as of December 31, 2014 was approximately \$3,250,000 and the cost approximated fair market value. Maturities of these instruments range to May of 2016.

7. Property and Equipment

Property and equipment consist of the following as of December 31, 2015 and 2014 (in thousands):

	December 31,	
	2015	2014
Leasehold improvements	\$2,684	\$2,559
Lab and clean room equipment	4,564	3,040
Furniture and equipment	4,577	2,398
Construction in Progress	2,629	949
Property and equipment, gross	14,454	8,946
Less accumulated depreciation	(4,979)	(3,499)
Property and equipment, net	\$9,475	\$5,447

Included in property and equipment is approximately \$427,000 of capital leases. The corresponding liability of approximately \$133,000 is included in other liabilities in the accompanying condensed consolidated balance sheet. Also included is approximately \$1,000,000 in leasehold improvements paid for by the landlord of our main operating facility with a corresponding liability included in long term liabilities, which is amortized over the term of the lease. Depreciation expense for the years ended December 31, 2015, 2014, and 2013 was approximately \$1,799,000, \$1,197,000, and \$637,000, respectively.

8. Intangible Assets and Royalty Agreement

Intangible assets are summarized as follows (in thousands):

		December 31,	
		2015	2014
	Weighted Average Amortization Lives	Cost	Cost
Licenses (a) (b)	10 years	\$1,009	\$1,009
Patents & Know How (b)	17 years	8,001	7,891
Customer & Supplier Relationships (b)	14 years	3,761	3,761
Tradenames & Trademarks (b)	indefinite	1,008	1,008
In Process Research & Development (b)	n/a	25	25
Patents in Process (c)	n/a	1,823	1,082
Total		15,627	14,776
Less Accumulated amortization		(4,864)	(3,931)
Net		\$10,763	\$10,845

On January 29, 2007, the Company acquired a license from Shriners Hospitals for Children and University of South Florida Research Foundation, Inc. in the amount of \$996,000. Within 30 days after the receipt by the Company of approval by the FDA allowing the sale of the first licensed product, the Company is required to pay an (a) additional \$200,000 to the licensor. Due to its contingent nature, this amount is not recorded as a liability. The Company will also be required to pay a royalty of 3% on all commercial sales revenue from the licensed products. The Company is also obligated to pay a \$50,000 minimum annual royalty payment over the life of the license. As of December 31, 2015, this license had a remaining net book value of approximately \$110,000.

On January 5, 2011, the Company acquired Surgical Biologics, LLC. As a result, the Company recorded intangible assets for Customer & Supplier Relationships of \$3,761,000, Patents & Know-How of \$7,690,000, (b) Licenses of \$13,000, Trade Names & Trademarks of \$1,008,000 and In-Process Research & Development of \$25,000. During 2015 approximately \$110,000 of additional costs associated with patents granted during the year were capitalized and included in Patents & Know- How subject to amortization.

Capitalized external legal and other registration costs in connection with internally developed tissue-based patents (c) that are pending. Once issued, the costs associated with a given patent will be included in Patents & Know-How under intangible assets subject to amortization.

Amortization expense for the years ended December 31, 2015, 2014, and 2013, was approximately \$933,000, \$928,000, and \$1,054,000, respectively.

Expected future amortization of intangible assets as of December 31, 2015, is as follows (in thousands):

Year ending December 31,	Estimated Amortization Expense
2016	\$ 936
2017	846
2018	836
2019	836
2020	836
Thereafter	5,465
	\$ 9,755

9. Long-Term Debt

Senior Secured Promissory Notes

From December 27 to December 31, 2011, the Company sold 5% Convertible Senior Secured Promissory Notes (the "Notes") to individual accredited investors for aggregate proceeds of \$5,000,000. The aggregate proceeds included \$500,000 of Notes sold to the Company's Chairman of the Board and CEO. In total, the principal of the Notes were convertible into up to 5,000,000 shares of common stock of the Company ("Common Stock") plus accrued but unpaid interest at \$1.00 per share at any time upon the election of the holder of the note.

In conjunction with the sale of the Notes, the Company incurred a placement fee of \$32,800 and issued 42,400 common stock warrants to the placement agents at an exercise price of \$1.09 per share. These warrants were exercised in November 2015. The fair value of the warrants was determined to be approximately \$15,000 using the Black-Scholes-Merton valuation technique. The total direct costs of approximately \$47,800 were recorded as deferred financing costs and were amortized over the term of the Notes using the effective interest method. Further, the placement agent warrants are classified in stockholders' equity because they achieved all of the requisite conditions for equity classification in accordance with GAAP.

During the months of January and February 2013, all holders of the Notes converted their interest in this obligation to shares of MiMedx common stock. The total amount of debt plus accrued interest that was exchanged was approximately \$5,272,000. In conjunction with this exchange, approximately 5,272,000 shares of the Company's common stock were issued in full satisfaction of this obligation. Included in this total are 532,260 shares representing the CEO's conversion of his Note. This also resulted in the acceleration of amortization of debt discount and total interest expense of approximately \$1,328,000 during the year ended December 31, 2013.

Credit Facility

On October 12, 2015, the Company and its subsidiaries entered into a Credit Agreement (the "Credit Agreement") with certain lenders and Bank of America, N.A., as administrative agent. The Credit Agreement establishes a senior secured revolving credit facility in favor of the Company with a maturity date of October 12, 2018 and an aggregate lender commitment of up to \$50 million. The Credit Agreement also provides for an uncommitted incremental facility of up to \$35 million, which can be exercised as one or more revolving commitment increases or new term loans, all subject to certain customary terms and conditions set forth in the Credit Agreement. Borrowings under the facility will bear interest at LIBOR plus 1.5% to 2.25%. Fees paid in connection with the initiation of the credit facility totaled approximately \$500,000. These deferred financing costs are being amortized to interest expense over the three-year life of the facility. The Credit Agreement contains customary representations, warranties, covenants, and events of default. As of December 31, 2015, there were no outstanding revolving loans under the credit facility.

10. Net Income (loss) Per Share

Basic net income (loss) per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed using the weighted-average number of common and dilutive common equivalent shares from stock options, warrants and restricted stock using the treasury stock method.

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands except per share data):

	Year Ended December 31,		
	2015	2014	2013
Net income (loss)	\$29,446	\$ 6,220	\$ (4,112)
Denominator for basic earnings per share - weighted average shares	105,929,205	105,793,008	96,285,504
Effect of dilutive securities: Stock options, warrants, and restricted stock (a)	7,699,277	502,496	—
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	113,628,482	106,295,504	96,285,504
Income (loss) per common share - basic	0.28	0.06	(0.04)
Income (loss) per common share - diluted	\$0.26	\$ 0.05	\$ (0.04)

(a) Securities that are included in the computation of the denominator above, utilizing the treasury stock method for the years ended December 31, 2015 and 2014 are as follows:

Effect of dilutive securities:	2015	2014
Stock Options	7,121,774	7,035,728
Warrants	33,676	226,926
Restricted Stock Awards	543,827	239,842
	7,699,277	7,502,496

Securities for the year ended December 31, 2013 were excluded from the computation of diluted earnings per share because they would have been anti-dilutive.

11. Common Stock Placements

Public Offering of Common Stock

In December of 2013, the Company completed a public offering (the "Offering") of 5,750,000 shares of its common stock at \$6.80 per share. Proceeds from the Offering, net of underwriting expenses were \$36,704,000. In addition, the Company incurred approximately \$194,000 in various legal fees for services related to the Offering.

Proceeds from the Offering were used for general corporate purposes, including, but not limited to, research, development and further commercialization of our products, obtaining regulatory approvals, funding of our clinical trials, capital expenditures, working capital and future acquisitions of complementary businesses, technology or products.

12. Equity

Stock Incentive Plans

The Company has three share-based compensation plans: the MiMedx Group, Inc. Assumed 2006 Stock Incentive Plan (the "2006 Plan"), the MiMedx Inc. 2007 Assumed Stock Plan (the "Assumed 2007 Plan") and the MiMedx Group Inc. Amended and Restated Assumed 2005 Stock Plan (the "Assumed 2005 Plan") which provide for the granting of qualified incentive and non-qualified stock options, stock appreciation awards and restricted stock awards to employees, directors, consultants and advisors. The awards are subject to a vesting schedule as set forth in each individual agreement. The Company intends to use only the 2006 Plan to make future grants. The number of assumed options under the Assumed 2005 Plan and Assumed 2007 Plan outstanding at December 31, 2015, totaled 70,000. The maximum number of shares of common stock that can be issued under the 2006 Plan total 26,500,000 at December 31, 2015.

Activity with respect to the stock options is summarized as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	16,474,227	\$ 3.43		
Granted	75,100	\$ 9.66		
Exercised	(2,220,881)	\$ 2.08		
Unvested options forfeited	(239,322)	\$ 6.66		
Vested options expired	(69,495)	\$ 2.61		
Outstanding at December 31, 2015	14,019,629	\$ 3.62	6.5	\$80,740,577
Vested at December 31, 2015	10,951,694	\$ 2.80	6.2	\$71,955,234
Vested or expected to vest at December 31, 2015 (a)	13,917,122	\$ 3.60	6.5	\$80,496,150

(a) Includes forfeiture adjusted unvested shares.

The intrinsic value of the options exercised during the years ended December 31, 2015, 2014 and 2013 were approximately \$17,181,000, \$10,566,000, and \$8,864,000, respectively.

The intrinsic value of options vested during the years ended December 31, 2015, 2014 and 2013 were approximately \$10,044,000, \$6,615,000, and \$3,351,000, respectively.

Following is a summary of stock options outstanding and exercisable at December 31, 2015:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$0.50 - \$0.76	441,429	3.4	\$ 0.72	441,429	\$ 0.72
\$0.87 - \$1.35	4,783,304	5.7	1.19	4,783,304	1.19
\$1.40 - \$2.45	1,641,928	5.1	1.93	1,641,928	1.93
\$2.66 - \$3.99	957,454	6.8	3.05	907,452	3.00
\$4.19 - \$6.38	3,552,323	7.4	5.35	2,229,386	5.32
\$6.45- \$9.78	2,527,525	8.1	7.29	914,703	7.18
\$9.90 - \$10.99	115,666	8.9	10.43	33,492	10.50
	14,019,629	6.5	\$ 3.62	10,951,694	\$ 2.80

A summary of the status of the Company's unvested stock options as of December 31, 2015 is presented below:

Unvested Stock Options	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2015	7,193,577	\$ 3.08
Granted	75,100	\$ 5.15
Cancelled	(239,322)	\$ 3.79
Vested	(3,961,420)	\$ 2.53
Unvested at December 31, 2015	3,067,935	\$ 3.81

Total unrecognized compensation expense at December 31, 2015, was approximately \$6,241,000 and will be charged to expense through March 2017.

The fair value of the options granted was estimated on the date of grant using the Black-Scholes-Merton option-pricing model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. Expected volatilities are based on historical volatility of peer companies and other factors estimated over the expected term of the options. The term of employee options granted is derived using the "simplified method" which computes expected term as the midpoint between the weighted average time to vesting and the contractual maturity. The simplified method was used due to the Company's lack of sufficient historical data to provide a reasonable basis upon which to estimate the expected term due to the limited period of time its equity shares have been publicly traded. The term for non-employee options is generally based upon the contractual term of the option. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term or contractual term as described.

The assumptions used in calculating the fair value of options using the Black-Scholes-Merton option-pricing model are set forth in the following table:

	Year ended December 31,		
	2015	2014	2013
Expected volatility	54.35 - 58.14%	58.14 - 64.50%	61.41 - 64.77%
Expected life (in years)	6	6	6
Expected dividend yield	—	—	—
Risk-free interest rate	1.51 - 1.68%	1.64 - 1.96%	0.85 - 1.88%

The weighted-average grant date fair value for options granted during the years ended December 31, 2015, 2014 and 2013 were approximately \$5.15, \$4.18 and \$3.08, respectively.

Restricted Stock Awards

Following is summary information for restricted stock awards for the year ended December 31, 2015. Shares vest over a one to three year period. As of December 31, 2015, there was approximately \$16,606,000 of total unrecognized stock-based compensation related to time-based, non-vested restricted stock. That expense is expected to be recognized on a straight-line basis over a weighted-average period of 2.1 years.

Additionally, during the twelve months ended December 31, 2015, 5,172 shares of common stock valued at approximately \$57,000 were issued under the 2006 Plan to a consultant in return for services performed.

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2015	1,228,898	\$ 7.16
Granted	1,974,259	\$ 9.80
Vested	(517,883)	\$ 6.90
Forfeited	(72,007)	\$ 9.77
Unvested at December 31, 2015	2,613,267	\$ 9.14

For the years ended December 31, 2015, 2014, and 2013 the Company recognized stock-based compensation as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Cost of sales	\$352	\$322	\$279
Research and development	790	660	417
Selling, general and administrative	15,754	10,471	5,314
	\$16,896	\$11,453	\$6,010

Warrants

On November 18, 2015, 42,400 common stock warrants representing the balance remaining from those granted in connection with equity share purchases by investors as an additional incentive for providing long - term equity capital to the Company and as additional compensation to consultants and advisors were exercised at an exercise price of \$1.09. The warrants were granted at negotiated prices in connection with the equity share purchases and at the market price of the common stock in other instances. The warrants were issued for terms of five years.

Treasury Stock

On May 12, 2014, our Board of Directors authorized the repurchase of up to \$10 million of our common stock from time to time, through December 31, 2014. The Board subsequently extended the program until December 31, 2016. In December 2014, the Board increased the authorization to \$20 million and further increased the authorization in 2015 to \$60 million. The timing and amount of repurchases will depend upon the Company's stock price, economic and market conditions, regulatory requirements, and other corporate considerations. The Company may initiate, suspend or discontinue purchases under the stock repurchase program at any time.

For the year ended December 31, 2015, the Company purchased approximately 4,610,000 shares of its common stock for an aggregate purchase price of approximately \$40,143,000 exclusive of commissions of approximately \$136,000. As of December 31, 2015, the Company had approximately \$14,274,000 remaining under the repurchase program.

13. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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

	December 31,	
	2015	2014
Deferred tax assets and liabilities:		
Accruals and prepaids	\$4,606	\$3,563
Intangible assets	146	619
Property and equipment	(1,396)	(770)
R&D and other tax credits	3,293	2,086
Stock compensation	7,063	4,163
Charitable contributions	—	1
Federal and state basis difference	145	114
Net operating loss	1,763	6,382
Net deferred tax assets	\$15,620	\$16,158

Valuation allowance	(782)	(16,158)
	\$14,838	\$—

The reconciliation of the Federal statutory income tax rate of 34% to the effective rate is as follows:

	December 31,			
	2015	2014		
Federal statutory rate	34.00 %	34.00 %		
State taxes, net of federal benefit	3.33 %	9.58 %		
Non deductible compensation	0.63 %	5.59 %		
Meals & entertainment	2.27 %	5.55 %		
Stock based compensation - ISO	6.39 %	21.73 %		
Other	(4.58)%	(5.92)%		
Valuation allowance	(63.33)%	(58.73)%		
	(21.29)%	11.80 %		

Current and deferred income tax expense (benefit) is as follows (in thousands):

	December	
	31, 2015	31, 2014
Current:		
Federal	\$ 8,452	\$ —
State	1,218	832
Total current	9,670	832
Deferred:		
Federal	(13,070)	—
State	(1,768)	—
Total deferred	(14,838)	—
Total expense	\$ (5,168)	\$ 832

Income taxes are based on estimates of the annual effective tax rate and evaluations of possible future events and transactions and may be subject to subsequent refinement or revision.

Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefit that, based on available evidence, is not expected to be realized. The Company establishes a valuation allowance for deferred tax assets for which realization is not likely. As of December 31, 2015, our deferred tax assets were primarily the result of accrued liabilities, equity compensation, and tax credit and net operating loss carryforwards. A valuation allowance of approximately \$782,000 and \$16,158,000 was recorded against our gross deferred tax asset balance as of December 31, 2015, and December 31, 2014, respectively. For the year ended December 31, 2015, we recorded a net valuation allowance release of \$15,376,000 on the basis of management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. As of December 31, 2015, in part because in the current year we achieved three years of cumulative pretax income in the U.S. federal tax jurisdiction, management determined that there is sufficient positive evidence to conclude that it is more likely than not that additional deferred taxes are realizable. It therefore reduced the valuation allowance accordingly.

At December 31, 2015, and December 31, 2014, the Company had income tax net operating loss ("NOL") carryforwards for federal and state purposes of \$579,000 and \$27,552,000, respectively. If not utilized, the federal and state tax loss carryforwards will expire between 2026 and 2031. The Company has recorded a deferred tax asset for both federal and state NOL carryforwards of approximately \$197,000 and approximately \$1,566,000, respectively. A valuation allowance remains recorded against the deferred tax asset for certain federal net operating loss carryovers in the amount of \$197,000 due to limitations provided by Internal Revenue Code Section 382 and certain state net operating loss carryovers in the amount of \$585,000 not expected to be utilized prior to expiration.

The Company's net operating losses and tax credits are subject to annual limitations due to ownership change limitations provided by Internal Revenue Code Section 382. The Company has performed an analysis and determined that the limitation exceeds the utilization of NOLs in the current year and does not anticipate much limitation going forward.

As a result of certain realization requirements of ASC 718, Compensation - Stock Compensation, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets as of December 31, 2015, and December 31, 2014, that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation that are greater than the compensation recognized for financial reporting. During 2015, deferred tax assets in the amount of \$7,757,000 were realized resulting in an increase to equity in the same amount. The Company has approximately \$1,661,000 of remaining deferred tax assets that will result in an increase to equity, if and when these deferred tax assets are ultimately realized. The Company uses ASC 740 ordering when determining when excess tax benefits have been realized.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in thousands):

	December 31, 2015	December 31, 2014
Unrecognized tax benefits - January 1	\$ —	\$ —
Gross increases - tax positions in current period	170	—
Unrecognized tax benefits - December 31	\$ 170	\$ —

Included in the balance of unrecognized tax benefits as of December 31, 2015 and December 31, 2014, are \$170,000 and \$0, respectively, of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits as of December 31, 2015 and December 31, 2014, are \$170,000 and \$0, respectively, of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes. This amount is recorded in Other Liabilities in the accompanying consolidated balance sheets.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company accrued no penalties or interest during 2015, and, in total, as of December 31, 2015 has not recognized any liabilities for penalties or interest. During 2014, we also did not accrue any penalties or interest and, in total, as of December 31, 2014, had not recognized any liability for penalties or interest.

The Company is subject to taxation in the US and various state jurisdictions. As of December 31, 2015, the Company's tax years for 2012, 2013, 2014 and 2015 are subject to examination by the tax authorities. As of December 31, 2015, the Company is generally no longer subject to US federal, state, or local examinations by tax authorities for years before 2012.

14. Supplemental Disclosure of Cash Flow and Non-Cash Investing and Financing Activities

Selected cash payments, receipts, and noncash activities are as follows (in thousands):

	Years Ended		
	December 31,		
	2015	2014	2013
Cash paid for interest	\$86	\$48	\$36
Income taxes paid	2,293	384	61
Purchases of equipment financed through capital leases	—	—	355
Retirement of fixed assets	319	—	—
Deferred financing costs	504	—	27
APIC related tax adjustments	7,757	—	—
Stock issuance in connection with Earn-Out Liability of 1,174,915 shares	—	—	5,792
Stock issuance in exchange for convertible debt of 5,272,004 shares	—	—	5,272
Stock issuance of 16,493 and 15,958 shares in exchange for services performed in 2015 and 2014, respectively	164	117	—
Tenant improvement incentive	—	—	997
Legal fees paid for public offering	—	—	102
Legal fees related to public offering included in accounts payable	—	—	30
Legal fees related to public offering included in accrued expenses	—	—	62

15.401k Plan

The Company has a 401(k) plan (the “Plan”) covering employees who have attained 21 years of age and have completed three months of service. Under the Plan, participants may defer up to 100% of their eligible wages to a maximum of \$18,000 per year (annual limit for 2015). Employees age 50 or over in 2015 may make additional pre-tax contributions up to \$6,000 above and beyond normal plan and legal limits. Annually, the Company may elect to match employee contributions up to 6% of the employee’s compensation. Additionally, the Company may elect to make a discretionary contribution to the Plan. The Company did not provide matching contributions for the years ended December 31, 2015, 2014 and 2013.

16. Commitments and Contingencies

Contractual Arrangements

In addition to the capital leases noted under Property and Equipment above, the Company has entered into operating lease agreements for facility space and equipment. These leases expire over the next five years and generally contain renewal options. The Company anticipates that most of these leases will be renewed or replaced upon expiration. The Company also has commitments for meeting space and to various charitable organizations.

The estimated annual payments are as follows (in thousands):

Year ended December 31,	
2016	\$2,818
2017	2,340
2018	1,766
2019	1,763
2020	352
	\$9,039

Rent expense for the years ended December 31, 2015, 2014 and 2013, was approximately \$1,317,000, \$1,130,000 and \$1,000,000, respectively and is allocated among cost of sales, research and development, and selling, general and administrative expenses.

Letters of Credit

As a condition of the leases for the Company's facilities we are obligated under standby letters of credit in the amount of approximately \$235,000. These obligations are reduced at various times over the lives of the leases.

FDA Untitled Letter, Draft Guidance and Related Litigation

FDA Untitled Letter and Draft Guidance

On August 28, 2013, the FDA issued an Untitled Letter alleging that the Company's micronized allografts do not meet the criteria for regulation solely under Section 361 of the Public Health Service Act and that, as a result, MiMedx would need a biologics license to lawfully market those micronized products. Since the issuance of the Untitled Letter, the Company has been in discussions with the FDA to communicate its disagreement with the FDA's assertion that the Company's allografts are more than minimally manipulated. To date, the FDA has not changed its position that the Company's micronized products are not eligible for marketing solely under Section 361 of the Public Health Service Act, but discussions are continuing. The Company continues to market its micronized products but is also pursuing the Biologics License Application (“BLA”) process for certain of its micronized products.

On December 22, 2014, the FDA issued for comment “Draft Guidance for Industry and FDA Staff: Minimal Manipulation of Human Cells, Tissues, and Cellular and Tissue-Based Products.” Essentially the Minimal Manipulation draft guidance takes the same position with respect to micronized amniotic tissue that it took in the Untitled Letter to MiMedx 16 months earlier. The Company submitted comments asserting that the Minimal Manipulation draft guidance represents agency action that goes far beyond the FDA’s statutory authority, is inconsistent with existing HCT/P regulations and the FDA’s prior positions, and is internally inconsistent and scientifically unsound.

On October 28, 2015, the FDA issued for comment, "Draft Guidance for Industry and FDA Staff: Homologous Use of Human Cells, Tissues, and Cellular and Tissue-Based Products." The Company submitted comments on this Homologous Use

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draft guidance. The FDA has also indicated that it will hold a public hearing on a date in 2016 to be determined to obtain input on the Homologous Use draft guidance and the previously released Minimal Manipulation draft guidance, as well as other recently issued guidance documents on HCT/Ps. The Company has requested, and has been granted an opportunity to speak at this hearing.

If the FDA does allow the Company to continue to market a micronized form of its sheet allografts without a biologics license either prior to or after finalization of the draft guidance documents, it may impose conditions, such as labeling restrictions and compliance with cGMP. Although the Company is preparing for these requirements in connection with its pursuit of a BLA for certain of its micronized products, earlier compliance with these conditions would require significant additional time and cost investments by the Company. It is also possible that the FDA will not allow the Company to market any form of a micronized product without a biologics license even prior to finalization of the draft guidance documents and could even require the Company to recall its micronized products. Revenues from micronized products comprised approximately 12% of the Company's revenues in 2015.

Related Litigation

Following the publication of the Untitled Letter from the FDA regarding the Company's micronized products in September 2013, the trading price of the Company's stock declined and several putative shareholder class action lawsuits were filed against the Company and certain of its executive officers asserting violations of the Securities Exchange Act of 1934. The cases were consolidated in the United States District Court for the Northern District of Georgia. On November 17, 2015, the parties entered into a stipulation of settlement to settle the consolidated case in its entirety. The stipulation of settlement was filed with the Court on November 18, 2015. On November 19, 2015, the Court preliminarily approved the settlement and has set the final settlement hearing for April 5, 2016.

OIG Subpoena

In the fourth quarter of 2014, the Company received a subpoena from the Office of Inspector General, U.S. Department of Health and Human Services, or OIG, in connection with a civil investigation into matters primarily related to the Company's sales and marketing activities. In March 2015, the Company received notice from the Department of Justice that it declined at that time to intervene in the qui tam action that gave rise to the issuance of the subpoena. The qui tam plaintiff had 120 days from the date of the Department of Justice's notice to proceed with the case. The 120 day period passed without initiation of the lawsuit. The plaintiff, who is an executive at the Company's competitor Organogenesis, Inc., voluntarily dismissed the lawsuit in July 2015. This dismissal was approved by the Court on October 6, 2015.

Patent Litigation

MiMedx continues to diligently enforce its intellectual property against several entities. Currently, there are three actions pending, as described below:

The Liventa Action

First, there is an action pending against several entities in the in the United States District Court for the Northern District of Georgia, i.e., "the Liventa Action". On April 22, 2014, the Company filed a patent infringement lawsuit against Liventa Bioscience, Inc. ("Liventa"), Medline Industries, Inc. ("Medline") and Musculoskeletal Transplant Foundation, Inc. ("MTF") for permanent injunctive relief and unspecified damages. In addition to the allegations of infringement of MiMedx's patents, the lawsuit asserts that Liventa and Medline knowingly and willfully made false and misleading representations about their respective products to providers, patients, and in some cases, prospective investors. The Liventa Action was filed in the United States District Court for the Northern District of Georgia.

MiMedx asserts that Liventa (formerly known as AFCell Medical, Inc.), Medline and MTF infringed and continue to infringe certain of the Company's patents relating to the MiMedx dehydrated human amnion/chorion membrane ("dHACM") allografts. MTF is the tissue processor while Liventa and Medline are the distributors of the allegedly infringing products. On May 30, 2014, defendants filed answers to the Complaint, denying the allegations in the Complaint. They also raised affirmative defenses of non-infringement, invalidity, laches and estoppel. MTF and Medline also filed counterclaims seeking declaratory judgments of non-infringement and invalidity.

On June 30, 2014, fact discovery began and the parties have engaged in extensive fact discovery.

MiMedx served Infringement Contentions on August 29, 2014, and Defendants served Invalidity Contentions and Responses to Infringement Contentions on September 29, 2014. After a protracted series of meet and confers, MiMedx required Defendants to supplement their invalidity contentions in view of parallel Inter Partes Review ("IPR")(see further discussion, infra) proceedings. MTF complied on June 26, 2015.

In September 2015, the Defendants filed a renewed Motion to Stay in light of the Patent Trial and Appeal Board's ("PTAB") decisions to institute IPRs on the '437 and '687 Patents, seeking a partial stay of the litigation as to the '437, '687, and '494 Patents (i.e., the '437 Patent family). MiMedx opposed the Motion to Stay with respect to the '494 Patent and once again successfully defeated Defendants' motion to stay.

Claim Construction proceedings began in October 2014. The parties submitted proposed constructions for key terms for the '701, '092, '437, '687, '207, and '494 Patents. Briefing was completed in March 2015.

On December 22, 2015, a Markman Hearing was held before Special Master Sumner C. Rosenberg. Over thirty disputed claim terms were at issue. One week later, on December 30, 2015, the Special Master issued its Report and Recommendation. Except for one term, the Special Master's Report essentially adopted MiMedx's proposed constructions. The parties are awaiting a final Court decision pending their respective objections.

The Bone Bank Action

On May 16, 2014, the Company also filed a patent infringement lawsuit against Transplant Technology, Inc. d/b/a Bone Bank Allografts ("Bone Bank") and Texas Human Biologics, Ltd. ("Biologics") for permanent injunctive relief and unspecified damages (the "Bone Bank Action"). The Bone Bank Action was filed in the United States District Court for the Western District of Texas. This lawsuit similarly asserts that Bone Bank and Biologics infringed certain of the Company's patents through the manufacturing and sale of their placental-derived tissue graft products. On July 10, 2014, defendants filed an answer to the Complaint, denying the allegations in the Complaint. They also raised affirmative defenses of non-infringement and invalidity and filed counterclaims seeking declaratory judgments of non-infringement and invalidity. The Bone Bank Action is in an advanced stage. The parties have (i) substantially completed document production; (ii) taken several fact depositions (both party and non-party); and (iii) completed claim construction briefing. The Markman hearing in this case was held on October 2, 2015. Except for one term, the Court adopted MiMedx's proposed construction of the disputed terms. The parties have submitted a proposed scheduling order to the Court and are awaiting the Court's order in this regard. Meanwhile, the parties continue with fact discovery in view of recent depositions.

The NuTech Action

Finally, on March 2, 2015, the Company filed a patent infringement lawsuit against NuTech Medical, Inc. ("NuTech") and DCI Donor Services, Inc. ("DCI") for permanent injunctive relief and unspecified damages. This lawsuit was filed in the United States District Court for the Northern District of Alabama. The lawsuit alleges that NuTech and DCI have infringed and continue to infringe the Company's patents through the manufacture, use, sale, and/or offering of their tissue graft product. The lawsuit also asserts that NuTech knowingly and willfully made false and misleading representations about its products to customers and/or prospective customers.

On April 17, 2015, NuTech filed a motion to dismiss the case purportedly for lack of patentable subject matter, which the Company opposed. NuTech also filed a motion to stay the case pending disposition of the motion to dismiss, which MiMedx also opposed, and on which the Court declined to rule. Hearing on the motion to dismiss occurred on August 20, 2015. On November 24, 2015, the court ruled on NuTech's Motion to Dismiss, granting in part, and denying in part. MiMedx still has claims against NuTech for infringement of the '494 and '687 patents, as well as violations of the Lanham Act; these claims shall proceed.

On December 30, 2015, the parties submitted a Joint Rule 26(f) Report of Parties' Planning Meeting and Proposed Case Management Order to the Court. In the Report, the parties requested that the Court stay the proceedings with respect to the '687 patent pending the completion of the inter partes review on that patent.

On January 8, 2016, MiMedx served its infringement contentions. Discovery has recently begun.

Pending IPRs

In addition to defending the claims in the pending district court litigations, defendants in the Liventa and Bone Bank cases have challenged certain of the Company's patents in several IPR proceedings to avoid the high burden of proof of proving

invalidity by "clear and convincing evidence" in the district court litigations. An inter partes review (or "IPR") is a request for a specialized group within the United States Patent and Trademark Office to review the validity of a plaintiff's patent claims. The defendants in the Bone Bank Action have challenged the validity of the Company's 8,597,687 and 8,709,494 patents (the "'687" and "'494" patents, respectively); while the defendants in the Liventa Action have challenged the validity of the Company's 8,372,437 and 8,323,701 patents (the "'437" and "'701" patents, respectively).

On June 29, 2015, the Patent Trial and Appeals Board ("PTAB") denied defendants' request for institution of an IPR with respect to the '494 patent on all seven challenged grounds. On August 18, 2015, the PTAB also denied defendants' request for institution of an IPR with respect to the '701 patent on all six challenged grounds. That is, the PTAB decided in each case that the defendants failed to establish a reasonable likelihood that defendants would prevail in showing any of the challenged claims of the '494 or the '701 patent were unpatentable.

On July 10, 2015 the PTAB issued an opinion allowing a review of the '687 patent to proceed, although on only two of the five challenged grounds. The PTAB also adopted MiMedx's construction of the claims which will govern the Board's review of the '687 patent. On August 18, 2015, the PTAB issued an opinion allowing a review of the '437 patent to proceed, although only on one of the seven challenged grounds. Briefing and expert discovery is ongoing.

Following the PTAB decisions, the defendants in the Bone Bank Action moved to stay the district court litigation, despite the Court's previous denial of such a stay, pending the outcome of the '687 patent inter partes review. The parties agreed to stay the case with respect to the '687 patent only and the Court denied Bone Bank's motion to stay the litigation with respect to the '494 patent. The Company has also successfully defeated an attempt by defendants in the Liventa Action to stay that litigation -- also pending the outcome of the IPR of the patents at issue in that case.

17. Quarterly Financial Data (Unaudited) (in thousands except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
NET SALES	2015 \$40,767	\$45,679	\$49,015	\$51,835
	2014 19,559	25,573	33,518	39,573
	2013 11,556	13,515	16,116	17,994
GROSS MARGIN	2015 \$35,619	\$40,590	\$44,036	\$46,849
	2014 16,582	22,833	30,170	35,973
	2013 9,651	11,316	14,002	14,883
NET INCOME (LOSS)	2015 \$4,087	\$5,430	\$6,551	\$13,378
	2014 (922)	(390)	3,700	3,832
	2013 (1,620)	(757)	(307)	(1,427)
NET INCOME (LOSS) PER COMMON SHARE - BASIC	2015 \$0.04	\$0.05	\$0.06	\$0.13
	2014 (0.01)	—	0.03	0.04
	2013 (0.02)	(0.01)	—	(0.01)
NET INCOME (LOSS) PER COMMON SHARE - DILUTED	2015 \$0.04	\$0.05	\$0.06	\$0.11
	2014 (0.01)	—	0.03	0.03
	2013 (0.02)	(0.01)	—	(0.01)

18. Subsequent Events

On January 13, 2016, the Company completed the acquisition of Stability Inc., d/b/a Stability Biologics, a provider of human tissue products to surgeons, facilities, and distributors serving the surgical, spine, and orthopedic sectors of the healthcare industry. The acquisition of Stability was effected by the merger of Stability Inc. into a newly created wholly owned subsidiary of the Company. The new subsidiary was the surviving company in the merger and was subsequently renamed Stability Biologics, LLC ("Stability"). The Company paid \$10 million at the closing, comprised of 60% cash and 40% in shares of common stock of MiMedx Group, Inc., assumed approximately \$800,000 in debt, and eliminated a \$2.4 million receivable related to Company products sold to Stability prior to the acquisition. The Company will also pay future contingent consideration through a two-year earn out arrangement based on the 2016 and 2017 performance of Stability's business. The Company expects the earn out will be the larger portion of the overall consideration for the transaction. The earn out will also be paid in the form of 60% cash and 40% in shares of stock of MiMedx Group, Inc.

Schedule II Valuation and Qualifying Accounts
MIMEDX GROUP, INC. AND SUBSIDIARIES
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2015, 2014 and 2013 (in thousands)

	Balance at Beginning of Year	Additions charged to Expense or Revenue	Deductions and write-offs	Balance at End of Year
For the Year ended December 31, 2015				
Allowance for doubtful accounts	\$ 1,750	\$ 1,698	\$ (178)	\$ 3,270
Allowance for product returns	841	3,257	(2,836)	1,262
Allowance for obsolescence	527	540	(670)	397
For the Year ended December 31, 2014				
Allowance for doubtful accounts	\$ 407	\$ 1,357	\$ (14)	\$ 1,750
Allowance for product returns	215	2,215	(1,589)	841
Allowance for obsolescence	322	405	(200)	527
For the Year ended December 31, 2013				
Allowance for doubtful accounts	\$ 49	\$ 391	\$ (33)	\$ 407
Allowance for product returns	89	917	(791)	215
Allowance for obsolescence	159	213	(50)	322

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report:

(1) Financial Statements

(2) Financial Statement Schedule:

The following Financial Statement Schedule is filed as part of this Report:

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2015, 2014 and 2013

(3) Exhibits

See Item 15(b) below. Each management contract or compensation plan has been identified.

(b) Exhibits

Exhibit

Number	Description
23.1#	Consent of Independent Registered Public Accounting Firm
31.1#	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Acts of 2002
31.2#	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Acts of 2002
32.1#	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2#	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS#	XBRL Instance Document
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document

Notes

#Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

February 22, 2017 MIMEDX GROUP, INC.

By: /s/ Michael J. Senken
Michael J. Senken
Chief Financial Officer