SAIA INC
Form 4
March 03, 2017

FORM 4

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

OMB APPROVAL	
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
ODELL RICHARD D

(Last) (First) (Middle)

11465 JOHNS CREEK PARKWAY, SUITE 400

(Street)

JOHNS CREEK, GA 30097

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SAIA INC [SAIA]

3. Date of Earliest Transaction (Month/Day/Year)
03/01/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)
President & CEO of Saia

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/01/2017		S		4,700	D	$ 49.3	15,433.5	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock	(1)							(2)	(3)	Common Stock	49,468.245
Stock Options (Right to Buy)	$ 31.5							02/04/2017	02/03/2021	Common Stock	39,600
Stock Options (Right to Buy)	$ 43.01							02/03/2018	02/03/2022	Common Stock	41,950
Stock Options (Right to Buy)	$ 27.45							02/08/2019	02/08/2023	Common Stock	73,740
Stock Options (Right to Buy)	$ 46.35							02/07/2020	02/07/2024	Common Stock	19,610

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ODELL RICHARD D 11465 JOHNS CREEK PARKWAY, SUITE 400 JOHNS CREEK, GA 30097			President & CEO of Saia	

Signatures

/s/ Stephanie R. Maschmeier	03/03/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The conversion rate of this derivative security on March 1, 2017 is 1.1966 resulting in 59,193.25 shares of common stock (underlying security in column 7).

(2) Immediate

(3) The shares of phantom stock become payable in the Company's common stock upon reporting person's termination of service as an employee, in accordance with the terms of the Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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10.17*

Employment Agreement by and among Alphatec Spine, Inc., Alphatec Holdings, Inc. and Michael O’Neill, dated October 11, 2010

Form 10-Q
(Exhibit 10.2)

11/08/10

000-52024

10.18*

Employment Agreement, dated February 26, 2012, by and among Alphatec Holdings, Inc., Alphatec Spine, Inc, and Leslie Cross

Form 10-Q
(Exhibit 10.1)

05/08/12

000-52024

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Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
10.19*	Amendment to the Employment Agreement by and among Les Cross, Alphatec Holdings, Inc. and Alphatec Spine, Inc., dated May 1, 2014		Form 10-K (Exhibit 10.23)	02/27/15	000-52024
10.20*	Employment Agreement by and between Alphatec Spine, Inc. and Mitsuo Asai, dated February 17, 2014		Form 10-Q (Exhibit 10.5)	05/01/14	000-52024
10.21*	Amended and Restated Employment Agreement by and among Alphatec Holdings, Inc., Alphatec Spine, Inc. and Ebun S. Garner, Esq., dated July 17, 2006		Form 10-K (Exhibit 10.20)	03/07/08	000-52024
10.22*	Employment Agreement by and among James M. Corbett, Alphatec Holdings, Inc. and Alphatec Spine, Inc., dated April 25, 2014		Form 10-Q (Exhibit 10.1)	07/31/14	000-52024
10.23*	Employment Agreement by and among Michael Plunkett, Alphatec Spine, Inc., and Alphatec Holdings, Inc., dated February 17, 2014		Form 10-Q (Exhibit 10.4)	05/01/14	000-52024
10.24*	Form of Indemnification Agreement entered into with each of the Company's non-employee directors		Form 10-Q (Exhibit 10.5)	05/05/09	000-52024
10.25*	Vesting Acceleration Agreement by and between James Glynn and Alphatec Holdings, Inc., dated November 2, 2015	X			
	Equity Compensation Plans				
10.26*	Amended and Restated 2005 Employee, Director and Consultant Stock Plan		Form S-8 (Exhibit 99.1)	03/23/13	333-187190
10.27*	Amendment to the Amended and Restated 2005 Employee, Director and Consultant Stock Plan		Schedule 14A (Appendix B)	06/11/13	000-52024
10.28*	Amendment to the Alphatec Holdings, Inc. Amended and Restated 2005 Employee, Director and Consultant Stock Plan		Form 10-Q (Exhibit 10.1)	10/30/14	000-52024
10.29*	Form of Non-Qualified Stock Option Agreement issued under the Amended and		Form 10-K (Exhibit 10.40)	03/05/13	000-52024

	Restated 2005 Stock Plan			
10.30*	Form of Incentive Stock Option Agreement issued under the Amended and Restated 2005 Stock Plan	Form 10-K (Exhibit 10.41)	03/05/13	000-52024
10.31*	Form of Restricted Stock Agreement issued under the Amended and Restated 2005 Stock Plan	Form 10-K (Exhibit 10.42)	03/05/14	000-52024
10.32*	Form of Performance-Based Restricted Unit Agreement issued under the Amended and Restated 2005 Employee, Director and Consultant Stock Plan, as amended.	Form 10-Q (Exhibit 10.2)	10/30/14	000-52024
10.33*	Amended 2007 Employee Stock Purchase Plan	Schedule 14A (Appendix C)	06/11/13	000-52024

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Exhibit Number	Exhibit Description	Filed with this Report	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
10.34*	Summary of the Alphatec Holdings, Inc. 2015 Discretionary Bonus Plan		Form 10-Q (Exhibit 10.1)	05/01/15	000-52024
	Settlement Agreements				
10.35	Settlement and Release Agreement, dated as of August 13, 2014, by and among Alphatec Holdings, Inc. and its direct and indirect subsidiaries and affiliates, Orthotec, LLC, Patrick Bertranou and the other parties named therein		Form 10-Q (Exhibit 10.3)	10/30/14	000-52024
21.1	Subsidiaries of the Registrant and Wholly Owned Subsidiaries of the Registrant's Subsidiaries	X			
23.1	Consent of Independent Registered Public Accounting Firm	X			
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101.1	XBRL Instance Document**				
101.2	XBRL Taxonomy Extension Schema Document**				
101.3	XBRL Taxonomy Extension Calculation Linkbase Document**				
101.4	XBRL Taxonomy Extension Definition Linkbase Document**				
101.5	XBRL Taxonomy Extension Label Linkbase Document**				

101.6	XBRL Taxonomy Extension Presentation Linkbase Document**

(*) Management contract or compensatory plan or arrangement.

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

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

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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.

		ALPHATEC HOLDINGS, INC.
Dated: March 15, 2016	By:	/S/ JAMES M. CORBETT
	Name:	James M. Corbett
	Title:	President and Chief Executive Officer (principal executive officer)

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

Signature	Title	Date
/S/ JAMES M. CORBETT James M. Corbett	President and Chief Executive Officer and Director (principal executive officer)	March 15, 2016
/S/ MICHAEL O’NEILL Michael O’Neill	Chief Financial Officer, Vice President and Treasurer (principal financial officer and principal accounting officer)	March 15, 2016
/S/ LESLIE H. CROSS Leslie H. Cross	Chairman of the Board of Directors	March 15, 2016
/S/ MORTIMER BERKOWITZ III Mortimer Berkowitz III	Chairman of the Executive Committee of the Board of Directors	March 15, 2016
/S/ TOM C. DAVIS Tom C. Davis	Director	March 15, 2016
/S/ SIRI S. MARSHALL Siri S. Marshall	Director	March 15, 2016
/S/ R. IAN MOLSON R. Ian Molson	Director	March 15, 2016
/S/ STEPHEN E. O’NEIL Stephen E. O’Neil	Director	March 15, 2016
/S/ DONALD A. WILLIAMS Donald A. Williams	Director	March 15, 2016

ALPHATEC HOLDINGS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Alphatec Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Alphatec Holdings, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 Alphatec Holdings, Inc., at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has recurring operating losses and has a working capital deficiency. In addition, the Company has not complied with certain covenants of loan agreements with its lenders and has significant debt obligations due in December 2016. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 1. The 2015 consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alphatec Holdings, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 15, 2016 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP
San Diego, California
March 15, 2016

ALPHATEC HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value data)

	December 31, 2015	2014
Assets		
Current assets:		
Cash	$11,229	$19,735
Restricted cash	2,350	4,400
Accounts receivable, net	38,319	40,440
Inventories, net	44,908	41,747
Prepaid expenses and other current assets	5,052	5,466
Deferred income tax assets	—	1,324
Total current assets	101,858	113,112
Property and equipment, net	21,945	26,040
Goodwill	—	171,333
Intangibles, net	21,616	30,259
Other assets	1,285	4,179
Total assets	$146,704	$344,923
Liabilities and Stockholders’ (Deficit) Equity		
Current liabilities:		
Accounts payable	$14,169	$10,130
Accrued expenses	29,791	35,393
Deferred revenue	648	1,300
Common stock warrant liabilities	687	8,702
Current portion of long-term debt	80,105	8,076
Total current liabilities	125,400	63,601
Long-term debt, less current portion	480	74,597
Other long-term liabilities	33,797	32,220
Deferred income tax liabilities	—	1,948
Redeemable preferred stock, $0.0001 par value; 20,000 authorized at December 31, 2015 and 2014; 3,319 shares issued and outstanding at both December 31, 2015 and 2014	23,603	23,603
Commitments and contingencies		
Stockholders’ (deficit) equity:		
Common stock, $0.0001 par value; 200,000 authorized; 102,158 and 99,856 shares issued and outstanding at December 31, 2015 and 2014, respectively	10	10
Treasury stock, 19 shares	(97)	(97)
Additional paid-in capital	416,939	413,921
Shareholder note receivable	(5,000)	(5,000)
Accumulated other comprehensive loss	(21,188)	(11,316)
Accumulated deficit	(427,240)	(248,564)
Total stockholders’ (deficit) equity	(36,576)	148,954
Total liabilities and stockholders’ (deficit) equity	$146,704	$344,923

See accompanying notes to consolidated financial statements.

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ALPHATEC HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended December 31,		
	2015	2014	2013
Revenues	$185,279	$206,980	$204,724
Cost of revenues	63,742	61,834	78,669
Amortization of acquired intangible assets	1,453	1,736	1,733
Gross profit	120,084	143,410	124,322
Operating expenses:			
Research and development	17,767	16,799	14,190
In-process research and development	274	527	—
Sales and marketing	70,856	77,179	76,960
General and administrative	34,867	43,381	47,949
Amortization of acquired intangible assets	2,400	2,974	3,009
Goodwill and intangible assets impairment	165,171	—	—
Restructuring expenses	1,188	706	9,665
Litigation settlement expenses	—	—	45,982
Total operating expenses	292,523	141,566	197,755
Operating (loss) income	(172,439)	1,844	(73,433)
Other income (expense):			
Interest income	53	10	6
Interest expense	(12,589)	(13,616)	(3,959)
Other income (expense), net	6,980	(33)	(1,662)
Total other income (expense)	(5,556)	(13,639)	(5,615)
Loss before income taxes	(177,995)	(11,795)	(79,048)
Income tax provision	681	1,087	3,179
Net loss	$(178,676)	$(12,882)	$(82,227)
Net loss per basic share	$(1.79)	$(0.13)	$(0.85)
Net loss per diluted share	$(1.79)	$(0.16)	$(0.85)
Shares used in calculating basic net loss per share	99,574	97,347	96,235
Shares used in calculating diluted net loss per share	99,574	97,735	96,235

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2015	2014	2013
Net loss	$(178,676)	$(12,882)	$(82,227)
Foreign currency translation adjustments	(9,872)	(15,193)	3,765
Comprehensive loss	$(188,548)	$(28,075)	$(78,462)

See accompanying notes to consolidated financial statements.

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ALPHATEC HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ (DEFICIT) EQUITY
(In thousands)

	Common stock							
	Shares	Amount	Additional paid-in capital	Shareholder note receivable	Treasury stock	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders’ (deficit) equity
Balance at December 31, 2012	96,703	$ 10	$ 399,246	$ —	$ (97)	$ 112	$ (153,455)	$ 245,816
Stock-based compensation	—	—	2,590	—	—	—	—	2,590
Exercise of stock options	6	—	8	—	—	—	—	8
Repurchase and/or forfeiture of common stock	(142)	—	(172)	—	—	—	—	(172)
Shares issued for consulting services	354	—	1,488	—	—	—	—	1,488
Issuance of common stock in connection with license agreements	130	—	250	—	—	—	—	250
Forfeiture of common stock in connection with business acquisition	(328)	—	(561)	—	—	—	—	(561)
Issuance of common stock for employee stock purchase plan	500	—	719	—	—	—	—	719
Issuance of common stock for restricted share awards granted to employees	376	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	3,765	—	3,765
Net loss	—	—	—	—	—	—	(82,227)	(82,227)
Balance at December 31, 2013	97,599	10	403,568	—	(97)	3,877	(235,682)	171,676
Stock-based compensation	—	—	2,690	—	—	—	—	2,690
Exercise of stock options	21	—	29	—	—	—	—	29
Repurchase and/or forfeiture of common stock	(266)	—	(3)	—	—	—	—	(3)
Shares issued for consulting services	1,327	—	1,864	—	—	—	—	1,864
Issuance of common stock for employee stock purchase plan	608	—	671	—	—	—	—	671
Issuance of common stock for restricted share awards granted to employees	493	—	—	—	—	—	—	—
Shareholder note receivable	—	—	5,000	(5,000)	—	—	—	—
Issuance of common stock for acquired technology	74	—	102	—	—	—	—	102
	—	—	—	—	—	(15,193)	—	(15,193)

Foreign currency translation adjustments								
Net loss	—	—	—	—	—	—	(12,882)	(12,882)
Balance at December 31, 2014	99,856	10	413,921	(5,000)	(97)	(11,316)	(248,564)	148,954
Stock-based compensation	—	—	2,562	—	—	—	—	2,562
Exercise of stock options	5	—	—	—	—	—	—	—
Repurchase and/or forfeiture of common stock	(261)	—	—	—	—	—	—	—
Shares issued for consulting services	1,325	—	81	—	—	—	—	81
Issuance of common stock for employee stock purchase plan	868	—	375	—	—	—	—	375
Issuance of common stock for restricted share awards granted to employees	292	—	—	—	—	—	—	—
Issuance of common stock for acquired technology	73	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(9,872)	—	(9,872)
Net loss	—	—	—	—	—	—	(178,676)	(178,676)
Balance at December 31, 2015	102,158	$ 10	$ 416,939	$ (5,000)	$ (97)	$ (21,188)	$ (427,240)	$ (36,576)

See accompanying notes to consolidated financial statements.

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ALPHATEC HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Operating activities:			
Net loss	$(178,676)	$(12,882)	$(82,227)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	19,031	18,385	26,277
Goodwill and intangible assets impairment	165,171	—	—
Stock-based compensation	2,643	4,554	4,078
Interest expense related to amortization of debt discount and debt issuance costs	4,695	6,700	368
In-process research and development	98	102	—
Provision for doubtful accounts	584	522	404
Provision for excess and obsolete inventory	2,156	3,539	11,652
Deferred income tax (benefit) provision	(333)	251	816
Other non-cash items	(4,363)	1,913	1,464
Changes in operating assets and liabilities:			
Restricted cash	4,400	(6,750)	—
Accounts receivable	1,197	(1,028)	(1,940)
Inventories	(5,456)	(4,348)	(4,407)
Prepaid expenses and other current assets	2,472	4,863	450
Other assets	(6)	(276)	64
Accounts payable	3,209	(1,042)	(3,853)
Accrued expenses and other	(6,365)	(35,130)	55,171
Deferred revenue	(333)	356	(510)
Net cash provided by (used in) operating activities	10,124	(20,271)	7,807
Investing activities:			
Purchases of property and equipment	(12,247)	(11,300)	(14,352)
Purchase of intangible assets	—	—	(750)
Cash paid for acquisitions	—	—	(4,000)
Cash received from sale of assets	—	300	—
Net cash used in investing activities	(12,247)	(11,000)	(19,102)
Financing activities:			
Exercise of stock options	375	26	8
Borrowings under lines of credit	141,583	163,067	154,622
Repayments under lines of credit	(144,567)	(156,106)	(168,855)
Principal payments on capital lease obligations	(747)	(766)	(434)
Proceeds from issuance of notes payable	5,000	30,350	28,000
Principal payments on notes payable	(8,176)	(5,837)	(2,654)
Net cash (used in) provided by financing activities	(6,532)	30,734	10,687
Effect of exchange rate changes on cash	149	(1,073)	(288)
Net decrease in cash	(8,506)	(1,610)	(896)
Cash at beginning of period	19,735	21,345	22,241
Cash at end of period	$11,229	$19,735	$21,345

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2015	2014	2013
Supplemental disclosure of cash flow information:			
Cash paid for interest	$7,627	$5,885	$3,973
Cash paid for income taxes	$621	$565	$1,780
Purchases of property and equipment in accounts payable	$2,323	$1,638	$1,513
Purchase of property and equipment through capital leases	$243	$1,212	$—
Non-cash purchases of license agreements	$—	$—	$250
Non-cash debt discount	$—	$650	$—
Initial fair value of warrant liability	$—	$11,280	$—

See accompanying notes to consolidated financial statements.

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ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Basis of Presentation
The Company
Alphatec Holdings, Inc. (“Alphatec”, “Alphatec Holdings” or the “Company”), through its wholly owned subsidiary, Alphatec Spine, Inc. and its subsidiaries (“Alphatec Spine”) designs, develops, manufactures and markets products for the surgical treatment of spine disorders. In addition to its U.S. operations, the Company also markets its products in over 50 international markets through its affiliate, Scient’x S.A.S. and its subsidiaries (“Scient’x”), via a direct salesforce in Italy and the United Kingdom and via independent distributors in the rest of Europe, the Middle East and Africa. In South America and Latin America the Company conducts its operations through its Brazilian subsidiary, Cibramed Productos Medicos. In Asia, the Company markets its products through its subsidiary, Alphatec Pacific, Inc. and its subsidiaries (“Alphatec Pacific”) via a direct sales force and independent distributors, and through distributors in other parts of Asia and Australia.
Basis of Presentation
The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and include the accounts of Alphatec and Alphatec Spine and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.
The Company has incurred significant net losses since inception and has relied on its ability to fund its operations through revenues from the sale of its products, equity financings and debt financings. As the Company has incurred losses, successful transition to profitability is dependent upon achieving a level of revenues adequate to support the Company’s cost structure. This may not occur and, unless and until it does, the Company will continue to need to raise additional capital. Additionally, as discussed below, the Company has a significant amount of debt that is classified as current debt. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. A going concern basis of accounting contemplates the recovery of the Company’s assets and the satisfaction of its liabilities in the normal course of business. Operating losses and negative cash flows may continue for at least the next year as the Company continues to incur costs related to the execution of its operating plan, introduction of new products and expansion into new geographies.
The Company's amended and restated credit facility (the "Amended Credit Facility") with MidCap Financial, LLC ("MidCap") matures in December 2016, which will require the Company to refinance the Amended Credit Facility with MidCap or to seek alternative financing. In addition, as disclosed in Note 5 as of December 31, 2015 the Company has determined that it failed to comply with the fixed charge coverage ratio covenant under its Amended Credit Facility with MidCap for June, August, September, October and December of 2015 and January 2016. The Company’s default under the MidCap credit facility also constitutes an event of default under the facility agreement (the "Facility Agreement") with Deerfield Private Design Fund II, L.P., Deerfield Private Design International II, L.P., Deerfield Special Situations Fund, L.P., and Deerfield Special Situations International Master Fund, L.P., (collectively "Deerfield"). In 2016, MidCap and Deerfield provided waivers of the Company’s failure to comply with the fixed charge coverage ratio covenant during such periods and MidCap and Deerfield has provided waivers of such defaults. The Company can provide no assurance that it will be in compliance with the financial covenants in the future. If the Company does not obtain waivers from MidCap or Deerfield, they would have the right to call the debts due immediately, which would significantly impact the Company's ability to continue as a going concern. Management intends to pursue additional opportunities to raise additional capital through public or private equity offerings, debt financings, receivables financings or collaborations or partnerships with other companies to further support its planned operations. However, there is no assurance that it will be able to do so.
2. Summary of Significant Accounting Policies
Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts and sales returns,

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the valuation of share based liabilities, deferred tax assets, fixed assets, inventory, investments, notes receivable and share-based compensation; and reserves for employee benefit obligations, restructuring liabilities, income tax uncertainties and other contingencies.

Concentrations of Credit Risk and Significant Customers

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and accounts receivable. The Company limits its exposure to credit loss by depositing its cash with established financial institutions. As of December 31, 2015, a substantial portion of the Company's available cash funds is held in business accounts. Although the Company deposits its cash with multiple financial institutions, its deposits, at times, may exceed federally insured limits.

The Company's customers are primarily hospitals, surgical centers and distributors and no single customer represented greater than 10 percent of consolidated revenues or accounts receivable for any of the periods presented. Credit to customers is granted based on an analysis of the customers' credit worthiness and credit losses have not been significant.

Revenue Recognition

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

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

Deferred revenues consist of sales transactions where circumstances indicate that collectibility is not reasonably assured due to payment terms, regional market risks or customer history. The Company defers the recognition of revenue until payments become due and cash is received from these distributors. As of December 31, 2015 and 2014, the balance in deferred revenue totaled $0.6 million and $1.3 million, respectively.

Restricted Cash

In March and November 2014, the Company borrowed and set aside cash for the payment of a portion of the Orthotec litigation settlement, which is subject to the terms of the facility agreement that it entered into with Deerfield on March 17, 2014. The Company classified this cash as restricted, because it may not be used for purposes other than payments of amounts due under the Orthotec litigation settlement agreement. As of December 31, 2015, the Company had $2.4 million classified as short-term restricted cash.

Accounts Receivable

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

Inventories

Inventories are stated at the lower of cost or market, with cost primarily determined under the first-in, first-out method. The Company reviews the components of inventory on a periodic basis for excess, obsolete and impaired inventory, and records a reserve for the identified items. The Company calculates an inventory reserve for estimated excess and obsolete inventory based upon historical turnover and assumptions about future demand for its products and market conditions. The Company’s biologics inventories have an expiration based on shelf life and are subject to demand fluctuations based on the availability and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

demand for alternative implant products. The Company’s estimates and assumptions for excess and obsolete inventory are reviewed and updated on a quarterly basis. Increases in the reserve for excess and obsolete inventory result in a corresponding increase to cost of revenues and establish a new cost basis for the part. Approximately $16.3 million and $17.3 million of inventory was held at consigned locations as of December 31, 2015 and 2014, respectively.

Property and Equipment

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

Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with provisions which require that goodwill and other identifiable intangible assets with indefinite useful lives be tested for impairment at least annually. The Company tests goodwill and intangible assets for impairment in December of each year, or more frequently if events and circumstances warrant. These assets are considered impaired if the Company determines that their carrying values may not be recoverable based on an assessment of certain events or changes in circumstances. If the assets are considered to be impaired, the Company recognizes the amount by which the carrying value of the assets exceeds the fair value of the assets as an impairment loss. In the third quarter of 2015, the market value of the Company’s common stock substantially declined. As a result of this decline, the Company determined that it had an indicator of impairment of the goodwill, and an interim test of goodwill impairment was performed. The Company analyzed the carrying amount of goodwill for impairment under a two-part test in accordance with authoritative guidance.

The Company estimated the fair value in step one of the goodwill impairment test based on a combination of the income approach which included discounted cash flows as well as a market approach that utilized the Company’s market information. The fair value measurements utilized to perform the impairment analysis are categorized within Level 3 of the fair value hierarchy. Significant management judgment is required in the forecast of future operating results that are used in the Company’s impairment analysis. The estimates the Company used are consistent with the plans and estimates that it uses to manage its business. Significant assumptions utilized in the Company’s income approach model included the growth rate of sales for recently introduced products and the introduction of anticipated new products similar to its historical growth rates. Another important assumption involved in forecasted sales is the projected mix of higher margin U.S. based sales and lower margin non-U.S. based sales. Additionally, the Company has projected an improvement in its gross margin, similar to its historical improvement in gross margins, as a result of its forecasted mix in U.S. sales versus non-U.S. sales and lower manufacturing cost per unit based on the increase in forecasted volume to absorb applied overhead over the next ten years.

The Company’s discounted cash flows required management judgment with respect to forecasted sales, launch of new products, gross margins, selling, general and administrative expenses, capital expenditures and the selection and use of an appropriate discount rate and terminal growth rate. For purposes of calculating the discounted cash flows, the Company used estimated revenue growth rates averaging between 3% and 13% for the discrete forecast period. Cash flows beyond the discrete forecast period were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends and considered long-term earnings growth rates for publicly traded peer companies. Future cash flows were then discounted to present value at a discount rate of 13.5%, and terminal value growth rate of 3%. The Company's market capitalization was also considered in assessing the reasonableness of the Company’s fair value as determined in step one of the goodwill impairment test. The Company’s assessment resulted in a fair value that was lower than the Company’s carrying value of net assets at September 30, 2015.

Based upon step one of the interim impairment test, the Company determined that its goodwill was impaired and that step two of the test was required to measure the amount of goodwill impairment. As a result of step two, in the third quarter of 2015 the Company recorded a charge of $164.3 million, representing the write-off of the entire balance of goodwill. The Company finalized the step two test in the fourth quarter of 2015, which did not change the amount of the impairment charge.

The accounting provisions also require that intangible assets with finite useful lives be amortized over their respective estimated useful lives and reviewed for indicators of impairment. The Company is amortizing its intangible assets, other than goodwill, on a straight-line basis over a one to fifteen-year period. In connection with the step two goodwill impairment test above the Company determined that certain intangible acquired were impaired. As a result, in the third quarter of 2015, the Company recorded an impairment charge of $0.9 million to physician education intangible assets acquired in the Scient'x acquisition, which is included in cost of goods sold. Prior to the impairment, amortization of the physician education intangible assets had been recorded in amortization of acquired intangible assets within operating expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During the year ended December 31, 2013, the Company decided that it would not continue to market an adult stem cell product sold under the Company's private label name of PureGen. The Company also decided that it would no longer actively market two additional products. The Company expensed $1.3 million as impairment charges in cost of goods sold in the year ended December 31, 2013 for the write-off of intangible assets related to these products.

Impairment of Long-Lived Assets

The Company assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of the long-lived assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value and is recorded as a reduction in the carrying value of the related asset and a charge to operating results.

Foreign Currency

The Company’s results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The Company’s primary functional currency is the U.S. dollar, while the functional currency of the Company’s foreign subsidiaries include the Japanese Yen, the Euro, the Brazilian Real, the British Pound and the Hong Kong Dollar. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated using the average exchange rate for the period. Net gains and losses resulting from the translation of foreign financial statements are recorded as accumulated other comprehensive income (loss) in stockholders’ (deficit) equity. Net foreign currency gains or (losses) resulting from transactions in currencies other than the functional currencies are included in other income (expense), net in the accompanying consolidated statements of operations. For the years ended December 31, 2015, 2014 and 2013, the Company recorded net foreign currency losses of approximately $1.2 million, $1.0 million and $1.7 million, respectively.

Warrants to Purchase Common Stock

Common stock warrants that contain compliance covenants and cash payment obligations are classified as common stock warrant liabilities on the consolidated balance sheet. The Company records the warrant liability at fair value and adjusts the carrying value of these common stock warrants to their estimated fair value at each reporting date with the increases or decreases in the fair value of such warrants at each reporting date recorded as other income (expense) in the consolidated statements of operations.

Fair Value Measurements

The carrying amount of financial instruments consisting of cash, restricted cash, trade accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses, accrued compensation and current portion of long-term debt included in the Company’s consolidated financial statements are reasonable estimates of fair value due to their short maturities. Based on the borrowing rates currently available to the Company for loans with similar terms, management believes the fair value of long-term debt approximates its carrying value.

Authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1:	Observable inputs such as quoted prices in active markets;
Level 2:	Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
Level 3:	Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company does not maintain any financial instruments that are considered to be Level 1 or Level 2 instruments as of December 31, 2015 or December 31, 2014. The Company classifies its common stock warrant liabilities within Level 3 of the fair value hierarchy because they are valued using valuation models with significant unobservable inputs. The following table provides a reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2015 (in thousands):

	Common Stock Warrant Liabilities	
Balance at December 31, 2013	$—	
Issuance	11,280	
Changes in fair value	(2,578	)
Balance at December 31, 2014	8,702	
Issuance	—	
Changes in fair value	(8,015	)
Balance at December 31, 2015	$687	

Common stock warrant liabilities are measured at fair value using the Black-Scholes option pricing valuation model. The assumptions used in the Black-Scholes option pricing valuation model for the common stock warrant liabilities were: (a) a risk-free interest rate based on the rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the remaining contractual term of the warrants; (b) an assumed dividend yield of zero percent based on the Company’s expectation that it will pay no dividends in the foreseeable future; (c) an expected term based on the remaining contractual term of the warrants; and (d) an expected volatility based upon the Company's historical volatility over the remaining contractual term of the warrants. The significant unobservable input used in measuring the fair value of the common stock warrant liabilities associated with the Deerfield Facility Agreement (defined below) is the expected volatility. Significant increases in volatility would result in a higher fair value measurement. The decrease in the fair value of the common stock warrant liabilities as of December 31, 2015 was primarily driven by the decrease in the Company's common stock price at December 31, 2015.

Research and Development

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

In-Process Research and Development

In-process research and development (“IPR&D”) consists of acquired research and development assets that are not part of an acquisition of a business and were not technologically feasible on the date the Company acquired them and had no alternative future use at that date or assets acquired in a business acquisition that are determined to have no alternative future use. The Company expects all acquired IPR&D will reach technological feasibility, but there can be no assurance that commercial viability of these products will ever be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing, developing and testing products in order to obtain regulatory approvals. If commercial viability were not achieved, the Company would likely look to other alternatives to provide these products. Until the technological feasibility of the acquired research and development assets are established, the Company expenses these costs.

Leases

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

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Product Shipment Cost

Product shipment costs are included in sales and marketing expense in the accompanying consolidated statements of operations. Product shipment costs totaled $3.8 million, $3.7 million and $3.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Stock-Based Compensation

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

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

- Estimated volatility is a measure of the amount by which the Company's common stock price is expected to fluctuate each year during the expected life of the award. The Company's estimated volatility through December 31, 2015 was based on a weighted-average volatility of its actual historical volatility over a period equal to the expected remaining life of the awards.
- The expected term represents the period of time that awards granted are expected to be outstanding. Through December 31, 2015, the Company calculated the expected term using a weighted-average term based on historical exercise patterns and the term from option date to full exercise for the options granted within the specified date range.
- The risk-free interest rate is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award.
- The assumed dividend yield is based on the Company's expectation of not paying dividends in the foreseeable future.

The Company used historical data to estimate the number of future stock option forfeitures. Share-based compensation recorded in the Company's consolidated statement of operations is based on awards expected to ultimately vest and has been reduced for estimated forfeitures. The Company's estimated forfeiture rates may differ from its actual forfeitures which would affect the amount of expense recognized during the period.

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

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

Valuation of Stock Option Awards

The assumptions used to compute the share-based compensation costs for the stock options granted during the years ended December 31, 2015, 2014 and 2013 are as follows:

	Year Ended December 31,		
	2015	2014	2013

Risk-free interest rate	1.6-1.8%	1.8-1.9%	1.1-1.8%
Expected dividend yield	—	—	—
Weighted average expected life (years)	5.4-5.5	5.4-5.5	5.3-5.5
Volatility	59-68%	60-71%	75-76%

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ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock-Based Compensation Costs

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

	Year Ended December 31,		
	2015	2014	2013
Cost of revenues	$72	$274	$228
Research and development	286	2,080	719
Sales and marketing	359	470	459
General and administrative	1,926	1,730	2,672
Total	$2,643	$4,554	$4,078

The amounts provided above include stock-based compensation expense of $0.1 million, $1.9 million and $1.5 million during the years ended December 31, 2015, 2014 and 2013, respectively, related to the vesting of stock options and awards granted to non-employees under consulting agreements.

Income Taxes

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

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

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net Loss per Share

Basic earnings per share ("EPS") is calculated by dividing the net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period and the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, common stock subject to repurchase by the Company, options and warrants are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive. The following table sets forth the computation of basic and diluted loss per share (in thousands, except per share data):

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net loss for basic earnings per share	$(178,676)	$(12,882)	$(82,227)
Decrease in fair value of warrants	—	(2,578)	—
Diluted net loss attributable to common stockholders	$(178,676)	$(15,460)	$(82,227)
Denominator:			
Weighted average common shares outstanding	100,385	98,138	97,111
Weighted average unvested common shares subject to repurchase	(811)	(791)	(876)
Weighted average common shares outstanding—basic	99,574	97,347	96,235
Effect of dilutive securities:			
Conversion of preferred stock	—	—	—
Options	—	—	—
Warrants	—	388	—
Weighted average common shares outstanding—diluted	99,574	97,735	96,235
Net loss per share:			
Basic	$(1.79)	$(0.13)	$(0.85)
Diluted	$(1.79)	$(0.16)	$(0.85)

As of December 31, 2015, 2014 and 2013, none of the outstanding shares of redeemable preferred stock were convertible to common stock.

The anti-dilutive securities not included in diluted net loss per share were as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Options to purchase common stock	7,941	7,057	4,597
Warrants to purchase common stock	11,544	725	594
Unvested restricted stock awards	811	791	876
	20,296	8,573	6,067

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to revenue recognition. This new standard replaces all current U.S. GAAP guidance on this topic and eliminates all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In August 2014, the FASB issued guidance related to disclosures of uncertainties about an entity's ability to continue as a going concern. The guidance requires management to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. Management will be required to make this evaluation for both annual and interim reporting periods and will have to make certain disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the entity's ability to continue as a going concern. Substantial doubt exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The guidance is effective for annual periods ending after December 15, 2016 and for interim reporting periods thereafter. The Company is evaluating the impact of this guidance and expects to adopt the standard for the annual reporting period ending December 31, 2016.

In January 2015, the FASB issued new accounting guidance, which eliminates the concept of extraordinary items from GAAP, which required certain classification and presentation of extraordinary items in the income statement and disclosures. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In July 2015, the FASB issued new accounting guidance, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value for entities that do not measure inventory using the last-in, first-out or retail inventory method. The guidance also eliminates the requirement for these entities to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

In November 2015, the FASB issued new accounting guidance, which will require the presentation of deferred tax assets and liabilities be classified as noncurrent in a consolidated balance sheet. The Company has elected to early adopt this guidance during the fourth quarter of 2015. The adoption of this new guidance resulted in a reclassification in the Company's deferred income taxes, net, being presented within other long-term liabilities on the Company's consolidated balance sheet as of December 31, 2015. The Company did not retrospectively adjust the consolidated balance sheet as of December 31, 2014. The adoption did not have a material effect on the consolidated financial statements and had no impact on net income.

3. Balance Sheet Details

Accounts Receivable

Accounts receivable consist of the following (in thousands):

	December 31,	
	2015	2014
Accounts receivable	$39,380	$41,233
Less allowance for doubtful accounts	(1,061)	(793)
Accounts receivables, net	$38,319	$40,440

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ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Inventories
Inventories consist of the following (in thousands):

	December 31, 2015	2014
Raw materials	$7,237	$5,020
Work-in-process	1,908	1,032
Finished goods	55,393	57,020
	64,538	63,072
Less reserve for excess and obsolete finished goods	(19,630)	(21,325)
Inventories, net	$44,908	$41,747

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

	Useful lives (in years)	December 31, 2015	2014
Surgical instruments	4	$65,723	$62,872
Machinery and equipment	7	15,520	15,382
Computer equipment	3	3,984	3,180
Office furniture and equipment	5	3,746	3,789
Leasehold improvements	various	3,856	3,841
Building	39	65	65
Land	n/a	9	9
Construction in progress	n/a	354	1,320
		93,257	90,458
Less accumulated depreciation and amortization		(71,312)	(64,418)
Property and equipment, net		$21,945	$26,040

Total depreciation expense was $13.0 million, $12.2 million and $14.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, assets recorded under capital leases of $2.6 million were included in the machinery and equipment balance and $0.1 million are included in the construction in progress balance. At December 31, 2014, assets recorded under capital leases of $3.2 million were included in the machinery and equipment balance and $0.6 million are included in the construction in progress balance. Amortization of assets under capital leases is included in depreciation expense.

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Intangible Assets

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

	Remaining Avg. Useful lives (in years)	December 31, 2015	2014
Developed product technology	1	$21,633	$22,526
Distribution rights	4	2,100	2,095
Intellectual property	—	1,004	1,004
License agreements	1	16,714	16,716
Core technology	4	4,086	4,554
Trademarks and trade names	2	3,245	3,559
Customer-related	9	19,169	20,493
Distribution network	5	4,027	4,027
Physician education programs	—	2,513	2,802
Supply agreement	—	225	225
		74,716	78,001
Less accumulated amortization		(53,100)	(47,742)
Intangible assets, net		$21,616	$30,259

Total expense related to amortization of intangible assets was $6.1 million, $6.2 million and $11.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

In 2015, the Company determined that the physician education intangible asset acquired in the Scient’x acquisition was impaired. As a result, the Company recorded a $0.9 million expense, which is included in goodwill and intangible impairment in the year ended December 31, 2015. Prior to the impairment, amortization of the physician eduction intangible asset had been recorded in amortization of acquired intangible assets within operating expenses.

On June 19, 2015, the Company entered into an exclusive distribution agreement with a third party to market a biologic product that would replace its existing NEXoss Synthetic Bone Graft. The Company expensed $0.3 million as an impairment charge in cost of goods sold for the write-off of an intangible asset related to this product. Additionally, due to a revised marketing strategy for the Company's Epicage interbody fusion device, the Company evaluated the related intangible asset for impairment in June 2015. As a result of this impairment analysis the Company expensed $0.9 million as an impairment charge in cost of goods sold for the write-off of an intangible asset related to this product.

During 2013, the Company decided to discontinue marketing and selling of an adult stem cell product sold under the Company's private label name of PureGen and two additional products. The Company expensed $1.3 million as impairment charges in cost of goods sold in the year ended December 31, 2013 for the write-off of intangible assets related to these products.

The future expected amortization expense related to intangible assets as of December 31, 2015 is as follows (in thousands):

Year Ending December 31,	
2016	$4,001
2017	3,995
2018	2,844

2019	2,410
2020	1,811
Thereafter	6,555
Total	$21,616

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Goodwill

The changes in the carrying amount of goodwill from December 31, 2014 through December 31, 2015 were as follows (in thousands):

	2015	2014
Balance at January 1	$171,333	$183,004
Impairment charge	(164,266)	—
Effect of foreign exchange rate on goodwill	(7,067)	(11,671)
Balance at December 31	$—	$171,333

Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31, 2015	2014
Commissions and sales milestones	$5,920	$6,259
Payroll and payroll related	5,577	8,291
Litigation settlements	4,400	7,393
Accrued professional fees	2,203	2,342
Royalties	1,578	2,129
Restructuring and severance accruals	1,358	849
Accrued taxes	1,074	1,344
Accrued interest	999	946
Other	6,682	5,840
Total accrued expenses	$29,791	$35,393

4. License and Consulting Agreements

OsseoFix Spinal Fracture Reduction System License Agreement

On April 16, 2009, the Company and Stout Medical Group LP ("Stout") amended the license agreement that the parties had entered into in September 2007 (the "License Amendment") that provides the Company with a worldwide license to develop and commercialize Stout's proprietary intellectual property related to a treatment for vertebral compression fractures. The effective date of the License Amendment is March 31, 2009. Under the License Amendment, the timing of the minimum royalty payments has been adjusted and Stout's ability to terminate the License Amendment was revised. Under the original license agreement, the Company's minimum royalty obligation began in the year ending December 31, 2009 and there are milestones due upon attainment of sales volumes. Pursuant to the License Amendment, the minimum royalty obligation is suspended until a licensed product obtains regulatory approval from the United States Food and Drug Administration (the "FDA"). In addition, under the terms of the License Amendment, Stout has the ability to terminate the License Amendment if the Company is not using commercially reasonable efforts to obtain regulatory approval to market and sell a licensed product; provided that the Company has the right to delay such termination in exchange for making certain payments to Stout. If, during the time period when such payments are made, the Company were to make a regulatory filing for the marketing and sale of a licensed product, such termination will be null and void. Pursuant to the License Amendment, Stout is entitled to retain all up-front payments that had been previously paid to it. The other material terms of the license agreement were not changed in the License Amendment.

In August 2014, the Company entered a third amendment (the “Third Amendment”) to the License Agreement. Pursuant to the Third Amendment: (i) the royalty rate paid by the Company for the net sales of licensed products is a fixed amount per quarter through December 31, 2016; (ii) the royalty rate starting in 2017 will be increased from 7.0% to 8.5%; (ii) starting in 2017, the minimum royalty obligation is $0.2 million per year, with such minimum royalty obligation being further reduced

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

stating in 2018; (iii) the territory is amended so that the United States is removed from the territory in which the Company can sell and market licensed products; (iv) all obligations of the Company to pursue a clinical trial in the United States are deleted; and (v) all milestone payments based on the achievement of certain sales milestones are deleted. In connection with this amendment the Company reversed the $1.7 million accrual it had recorded for the sales milestone payment into cost of goods sold for the year ended December 31, 2014.

OsseoScrew License Agreement

In December 2007, the Company entered into an exclusive license agreement (the “OsseoScrew License Agreement”), with Progressive Spinal Technologies LLC (“PST”), which provides the Company with an exclusive worldwide license to develop and commercialize PST’s proprietary intellectual property related to an expanding pedicle screw with increased pull-out strength. The financial terms of the OsseoScrew License Agreement include: (i) a cash payment payable following the execution of the agreement; (ii) development and sales milestone payments in cash and the Company’s common stock that began to be achieved and paid in 2008; and (iii) a royalty payment based on net sales of licensed products. The agreement included milestone payments of $3.6 million consisting of cash and the Company’s common stock upon the completion of the biomechanical testing, which were attained in 2009. Furthermore, the agreement includes milestone payments of $2.5 million consisting of cash and the Company’s common stock upon market launch.

In November 2010, the Company and PST entered into a fifth amendment to the OsseoScrew License Agreement. The fifth amendment includes (i) a milestone payment of a $1.5 million and the issuance of $1.0 million in shares of the Company’s common stock upon market launch in Europe; and (ii) royalty payments based on net sales of licensed products with minimum annual royalties beginning at the end of 2011. During the fourth quarter of 2010, the Company recorded an intangible asset of $2.5 million for a milestone payment required upon market launch in Europe which consisted of the cash payment of $1.5 million and $1.0 million in shares of the Company’s common stock. The Company is amortizing this asset over seven years, the estimated life of the product. The total number of shares of common stock that were issued on December 15, 2010 was 452,488.

On December 12, 2013, the Company and PST entered into a sixth amendment to the OsseoScrew License Agreement. The sixth amendment provides (i) the royalty rate paid by the Company for net sales of licensed products is increased; (ii) the territory is amended so that the United States is removed from the territory in which the Company can sell and market licensed products, and such rights are non-exclusive in Russia and the People’s Republic of China; (iii) all milestone payments based on the achievement of certain sales milestones are deleted; and (iv) a $0.3 million milestone payment to be paid upon the achievement of regulatory approval of a licensed product in the People’s Republic of China was added. In connection with this amendment, the Company reversed the $0.6 million accrual it had recorded for the sales milestone payment into cost of goods sold for the year ended December 31, 2013.

License Agreement with Helix Point, LLC

In February 2009, the Company entered into a license agreement (the “Helifuse/Helifix License Agreement”) with Helix Point, LLC (“Helix Point”) that provides the Company with a worldwide exclusive license (excluding the People’s Republic of China) to develop and commercialize Helix Point’s proprietary intellectual property related to a device for the treatment of spinal stenosis. The financial terms of the Helifuse/Helifix License Agreement include: (i) a cash payment of $0.2 million payable following the execution of the Helifuse/Helifix License Agreement; (ii) the issuance of $0.4 million of shares of the Company’s common stock following the execution of the Helifuse/Helifix License Agreement; (iii) development and sales milestone payments in cash and the Company’s common stock; and (iv) a royalty payment based on net sales of licensed products, with minimum annual royalties beginning in the year after the first commercial sale of a licensed product. During the third quarter of 2010, the Company recorded an intangible asset of $0.2 million for the assets received as this product is cleared for sale in Europe and technological feasibility is considered to have been achieved. Based on the analysis of the estimated remaining useful life of this asset performed in 2015, the Company has accelerated amortization so that the carrying value of this asset will be fully amortized by December 2016.

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License Agreement with International Spinal Innovations, LLC

In June 2009, the Company entered into a cross license agreement (the “ISI License Agreement”) with International Spinal Innovations, LLC (“ISI”) that provides the Company with a worldwide license to develop and commercialize ISI’s proprietary intellectual property related to a stand-alone anterior lumbar interbody fusion device. The financial terms of the ISI License Agreement include: (i) the issuance of 260,000 shares of the Company’s common stock following the execution of the ISI License Agreement; (ii) sales milestone payments in cash that could begin to be achieved and paid in 2016; and (iii) a royalty payment based on net sales of licensed products. In 2012, the Company entered into an amended agreement that established a minimum royalty payment amount that began in 2012.

Distribution Agreement with Parcell Spine, LLC

In January 2010, the Company entered into an exclusive distribution agreement (the “Parcell Agreement”) with Parcell Spine, LLC (“Parcell Spine”), which provides the Company with the exclusive right to distribute Parcell Spine’s proprietary adult stem cells for the treatment of spinal disorders under either Parcell’s trademarks or Alphatec Spine’s private label. The financial terms of the Parcell Agreement include: (i) a cash payment of $0.5 million payable following the execution of the Parcell Agreement; (ii) a milestone payment consisting of $1.0 million in cash and the issuance of $1.0 million of shares of the Company’s common stock following the successful completion of a pre-clinical study; and (iii) sales milestone payments in cash and the Company’s common stock. In 2010, the Company recorded an intangible asset of $1.5 million for a milestone payment required upon market launch when the product became commercially ready for sale which consisted of a cash payment of $0.5 million and $1.0 million worth of the Company’s common stock. The Company is amortizing this asset over seven years, the estimated life of the product. During the year ended December 31, 2013, the Company decided that it would not continue to sell its PureGen product, which is currently the only product commercialized by the Company under the Parcell Agreement. During the year ended December 31, 2013, the Company expensed $0.9 million as impairment charges in cost of goods for the write-off of intangible assets related to the Parcell Agreement and expensed $2.6 million related to the write-off of inventory and certain prepaid assets in cost of goods sold.

License Agreement with R Tree Innovations LLC

In September 2010, the Company entered into a License Agreement (the “R Tree License Agreement”) with R Tree Innovations LLC (“R Tree”) that provides the Company with a worldwide license to develop and commercialize R Tree’s proprietary intellectual property related to its Epicage interbody fusion device and related instrumentation. The financial terms of the R Tree License Agreement include: (i) a cash payment of $0.8 million and the issuance of $0.5 million of the Company’s common stock following the execution of the R Tree License Agreement; (ii) development and sales milestone payments in cash that could begin to be achieved and paid in 2013; and (iii) a royalty payment based on net sales of licensed products. During the third quarter of 2010, the Company recorded an intangible asset of $1.3 million following the execution of the R Tree License Agreement. In November 2012, the Company and R Tree entered into an amendment to the R Tree License Agreement (the “R Tree Amendment”). In connection with the R Tree Amendment, the Company made a cash payment of $0.3 million and issued $0.2 million of its common stock to R Tree. The total consideration of $0.5 million was recorded as an intangible asset. The Company is amortizing the intangible asset over seven years, the estimated life of the product. The total number of shares of common stock, which were issued in accordance with the R Tree License Agreement and the R Tree Amendment was 367,044. In October 2013, another milestone was reached and the Company made a $0.3 million cash payment and issued $0.2 million worth of its common stock to R Tree. The total consideration of $0.5 million was recorded as an intangible asset.

Biologic Supply Agreement

In June 2015, the Company entered into an exclusive distribution agreement with a third party supplier pursuant to which the Company acquired exclusive worldwide distribution rights to market a synthetic biologic product under the Company's own brand name (the "Biologic Supply Agreement"). The Biologic Supply Agreement requires the Company to make minimum payments to the third party supplier for the Company's worldwide distribution rights under the agreement to remain exclusive.

Asset Purchase Agreement

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In July 2014, the Company entered into an asset purchase and product development services agreement (the "Asset Agreement") whereby the Company purchased rights to the conceptual design for an intervertebral implant device. The financial terms of the Agreement include payments in cash and the Company's common stock upon achievement of various milestones. The Company accounted for this arrangement as an asset acquisition. In the year ended December 31, 2014, the Company made cash payments totaling $0.2 million and issued 72,992 shares of the Company's common stock valued at $0.1 million. The Company recognized the cash and stock payments of $0.3 million as in-process research and development expense in the year ended December 31, 2014. Under the terms of the Asset Agreement as amended in 2015 the Company was obligated to pay $0.2 million cash compensation and issue 72,992 shares of the Company's common stocks valued at less than $0.1 million. The Company expensed $0.3 million as in-process research and development in the year ended December 31, 2015.

5. Debt

MidCap Loan and Security Agreement

On August 30, 2013, the Company entered into the Amended Credit Facility with MidCap. The Amended Credit Facility amended and restated the prior credit facility that the Company had with MidCap (the "Prior Credit Facility"). Pursuant to the Amended Credit Facility, the Company increased the borrowing limit from $50 million to $73 million and extended the maturity to August 2016. In July 2015, the Company further amended the Amended Credit Facility to provide for an additional term loan of $5 million. As of December 31, 2015, the Amended Credit Facility consisted of a $38 million term loan, $28 million of which was drawn at closing, the remaining $5 million of which was drawn in April 2014, a $5 million term loan drawn in July 2015 and a revolving line of credit with a maximum borrowing base of $40 million, of which $28.8 million was outstanding at December 31, 2015. The Company used the term loan proceeds of $28 million drawn at closing to repay a portion of the outstanding balance on the prior revolving line of credit.

The term loan interest rate is priced at the London Interbank Offered Rate ("LIBOR") plus 8.0%, subject to a 9.5% floor, and the revolving line of credit interest rate bears interest at LIBOR plus 6.0%, reset monthly. At December 31, 2015, the revolving line of credit carries an interest rate of 6.2% and the term loan carries an interest rate of 9.5%. The borrowing base is determined, from time to time, based on the value of domestic eligible accounts receivable and domestic eligible inventory. As collateral for the Amended Credit Facility, the Company granted MidCap a security interest in substantially all of its assets, including all accounts receivable and all securities evidencing its interests in its subsidiaries. In addition to monthly payments of interest, monthly repayments of $0.3 million of the principal for the term loan were made beginning in October 2013, increasing to $0.5 million beginning in October 2014, and are due through maturity, with the remaining principal due upon maturity.

In connection with the execution of the Amended Credit Facility, the Company incurred approximately $0.4 million in costs, which were capitalized as debt issuance costs within the consolidated balance sheet as of December 31, 2014. At December 31, 2015, $0.2 million remains as unamortized debt issuance costs related to the prior and Amended Credit Facility within the consolidated balance sheet, which will be amortized over the remaining term of the Amended Credit Facility.

In February 2013, the Company and MidCap entered into a first amendment to the Credit Facility (the "First Amendment to the Credit Facility”). The First Amendment to the Credit Facility allowed the Company to exclude payments related to an acquisition and a settlement agreement from calculation of the fixed charge coverage ratio and the senior leverage ratio. In conjunction with the First Amendment to the Credit Facility, the Company paid MidCap a fee of $0.1 million.

On March 17, 2014, the Company entered into a first amendment to the Amended Credit Facility with MidCap (the "First Amendment to the Amended Credit Facility"). Under the First Amendment to the Amended Credit Facility, MidCap gave the Company its consent to enter into the Facility Agreement and make settlement payments in connection with the Orthotec litigation. The First Amendment to the Amended Credit Facility also added a total leverage ratio financial covenant.

The Amended Credit Facility includes traditional lending and reporting covenants including a fixed charge coverage ratio, a senior leverage ratio and a total leverage ratio to be maintained by the Company. The First Amendment to the Amended Credit Facility added a total leverage ratio financial covenant.The Amended Credit Facility also provides for several event of default provisions, such as payment default and insolvency conditions, which could cause interest to be charged at a rate which is up to five percentage points above the rate effective immediately before the event of default or result in MidCap's right to declare all outstanding obligations immediately due and payable.

The Company was in compliance with all of the covenants of the Amended Credit Facility as of December 31, 2015, except for the non-compliance disclosed in Note 1. The Company has obtained a waiver from MidCap to cure the breach of the fixed charge coverage ratio covenant for each of June, August, September, October, November and December of 2015 and

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January 2016. There is no assurance that the Company will be in compliance with the financial covenants of the Amended Credit Facility in the future.

During the year ended December 31, 2015, the Company repaid $144.6 million and drew an additional $141.6 million on its working capital line of credit under the Amended Credit Facility. The balance of the line of credit and the term loan as of December 31, 2015 and 2014 was $28.8 million and $28.0 million, respectively. Amortization of the debt discount and debt issuance costs, accretion of the finance charge and non-cash extinguishment of debt costs, which were recorded as non-cash interest expense, totaled $0.3 million, $0.3 million and $0.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. Interest expense for the term loans and the Company’s working capital line of credit, excluding debt discount and debt issuance cost amortization, accretion of the additional finance charge and extinguishment of debt costs, totaled $5.3 million, $5.3 million and $3.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

On March 11, 2016, the Company entered into a third amendment and waiver to the Amended Credit Facility with MidCap (the "Third Amendment to the Amended Credit Facility"). The Third Amendment to the Amended Credit Facility extends the maturity date of the Amended Credit Facility from August 30, 2016 to December 31, 2016 and contains an amendment fee in the amount of $0.5 million, which is due and payable at the earlier of the termination of the Amended Credit Facility or the maturity date. The Third Amendment also contains a waiver of the December 2015 defaults under the Facility Agreement, provides a waiver for the fixed charge coverage ratio for January 2016 and eliminates the fixed charge coverage ratio covenant for February 2016.

Deerfield Facility Agreement

On March 17, 2014, the Company entered into the Facility Agreement with Deerfield, pursuant to which Deerfield agreed to loan the Company up to $50 million, subject to the terms and conditions set forth in the Facility Agreement. Under the terms of the Facility Agreement, the Company had the option, but was not required, upon certain conditions to draw the entire amount available under the Facility Agreement, at any time until January 30, 2015 (the “Draw Period”), provided that the initial draw be used for a portion of the payments made in connection with the Orthotec settlement described in Note 6 below. Following such initial draw down, the Company was permitted to draw down additional amounts under the Facility Agreement up to an aggregate $15 million for working capital or general corporate purposes in $2.5 million increments until the end of the Draw Period. The Company agreed to pay Deerfield, upon each disbursement of funds under the Facility Agreement, a transaction fee equal to 2.5% of the principal amount of the funds disbursed. Amounts borrowed under the Facility Agreement bear interest at a rate of 8.75% per annum and are payable on the third, fourth and fifth anniversary date of the first amount borrowed under the Facility Agreement, with the final payment due on March 20, 2019.

In connection with the execution of the Facility Agreement on March 17, 2014, the Company issued to Deerfield warrants to purchase an aggregate of 6,250,000 shares of the Company’s common stock (the “Initial Warrants”) (See Note 8). Additionally, the Company agreed that upon each disbursement under the Facility Agreement, the Company would issue to Deerfield warrants to purchase up to 10,000,000 shares of the Company’s common stock, in proportion to the amount of draw compared to the total $50 million facility (the "Draw Warrants") (See Note 8).

On March 20, 2014, the Company made an initial draw of $20.0 million under the Facility Agreement and received net proceeds of $19.5 million to fund the portion of the Orthotec settlement payment obligations that were due in 2014. The $0.5 million transaction fee was recorded as a debt discount and is being amortized over the term of the draw, which ends March 20, 2019. In connection with this borrowing, the Company issued Draw Warrants to purchase 4,000,000 shares of common stock, which were valued at $4.7 million and recorded as a debt discount and is being amortized over the term of the draw. Additionally, $2.3 million of the value of the Initial Warrants was reclassified as a debt discount and is being amortized through interest expense over the term of the debt using the effective interest method.

On November 21, 2014, the Company made a second draw of $6.0 million under the Facility Agreement and received net proceeds of $5.9 million to fund the portion of the Orthotec settlement payments through 2016. The $0.2 million transaction fee was recorded as a debt discount and is being amortized over the remaining term of the draw, which ends March 20, 2019. In connection with this borrowing, the Company issued Draw Warrants to purchase 1,200,000 shares of common stock, which were valued at $0.9 million and recorded as a debt discount and is being amortized over the term of the debt using the effective interest method.

On July 10, 2015, the Company entered into a First Amendment to the Facility Agreement (the “Facility Agreement First Amendment”), with Deerfield. The Facility Agreement First Amendment permitted the Company, among other things, to enter into and borrow the additional $5 million under the term loan in July 2015 under the Second Amendment to the Amended Credit Facility.

As of December 31, 2015, Orthotec settlement payments of $23.0 million have been made, leaving remaining proceeds from the funds borrowed under the Facility Agreement of $2.4 million. These proceeds are classified as short-term restricted cash, as their use is limited by the terms of the Facility Agreement to the payments of amounts due under the Orthotec litigation settlement agreement. Additionally, a payment of $1.1 million was made on January 1, 2016. The amounts borrowed under the Facility Agreement, which total $26.0 million in principal as of December 31, 2015, are due in three equal annual payments beginning March 20, 2017. Additionally, $0.2 million of the value of the Initial Warrants was reclassified as a debt discount and is being amortized through interest expense over the term of the debt using the effective interest method.

The Facility Agreement contains various representations and warranties, and affirmative and negative covenants, customary for financings of this type, including restrictions on the ability of the Company and its subsidiaries to incur additional indebtedness or liens on its assets, except as permitted under the Facility Agreement. As security for our repayment of our obligations under the Facility Agreement, the Company granted to Deerfield a security interest in substantially all of our property and interests in property, which is subordinated to the security interest granted under the Amended Credit Facility. As a result of the Company's non-compliance with the MidCap fixed charge coverage ratio covenant, the Company was in cross-default of the Facility Agreement, for which the Company received a waiver from Deerfield for the months of June, August, September, October, November and December of 2015. There is no assurance that the Company will be in compliance with the financial covenants of the Amended Credit Facility in the foreseeable future, which would result in a cross-default under the Facility Agreement in which case Deerfield would have the right to call the debt outstanding under the Facility Agreement due immediately. Accordingly, the amounts borrowed under the Facility Agreement are presented on the consolidated balance sheet as of December 31, 2015 under current liabilities, net of unamortized issuance discount.

On February 5, 2016, the Company entered into a Limited Waiver and Second Amendment to the Facility Agreement (the “Second Amendment”) with Deerfield. The Second Amendment increases the interest rate under the Facility Agreement from 8.75% per annum to 14.75% per annum. In addition, the Second Amendment provides that the Company may elect to have (i) until August 30, 2016, six percent (6%), and (ii) thereafter, three percent (3%), in each case, of the interest on the outstanding principal amount under the Facility Agreement paid in kind, which would be added to the outstanding principal amount under the Facility Agreement and bear interest at the interest rate of 14.75% per annum (the “PIK Interest”). All accrued and unpaid PIK Interest is due and payable when the outstanding amounts under the Facility Agreement are due and payable thereunder or are fully repaid, whichever occurs first. The Second Amendment also contains an amendment fee in the amount of $0.6 million, which is due and payable in installments of $0.2 million on each of the third, fourth and fifth anniversaries of the Facility Agreement; provided, that all unpaid amendment fees shall be due and payable when the outstanding amounts under the Facility Agreement are due and payable or are fully repaid, whichever occurs first. The Second Amendment also changes the date March 31, 2017 to March 31, 2018, as the date through which the Company must pay interest in the event the Company prepays amounts outstanding under the Facility Agreement prior to such date. The Second Amendment also contains a waiver of the defaults under the Facility Agreement discussed in Note 1.

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Other Debt Agreements

The Company has various capital lease arrangements. The leases bear annual interest at rates ranging from 6.6% to 9.6%, are generally due in monthly principal and interest installments, are collateralized by the related equipment, and have various maturity dates through September 2018.

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

	December 31, 2015	2014
Amended Credit Facility with MidCap	$56,799	$60,390
Facility Agreement with Deerfield	26,000	26,000
Note payable related to software license purchases	189	250
Financing agreements for premiums on insurance policies	1,599	1,580
Total	84,587	88,220
Add: capital leases (See Note 6)	1,277	1,784
Less: debt discount	(5,279)	(7,331)
Total	80,585	82,673
Less: current portion of long-term debt	(80,105)	(8,076)
Total long-term debt, net of current portion	$480	$74,597

Principal payments on debt are as follows as of December 31, 2015 (in thousands):

Year Ending December 31,	
2016 [(1)]	$58,587
2017 [(1)]	8,667
2018 [(1)]	8,667
2019 [(1)]	8,666
Total	84,587
Add: capital lease principal payments	1,277
Less: debt discount	(5,279)
Total	80,585
Less: current portion of long-term debt [(1)]	(80,105)
Long-term debt, net of current portion	$480

[(1)] The amounts above are presented based on the contractual payment schedule in each of the respective agreements. However, the debt balances under the Amended Credit Facility and Facility Agreement were callable as of December 31, 2015
due to the event of default (See Note 1) and therefore, are presented as a current liability in the consolidated balance sheet as of December 31, 2015.

6. Commitments and Contingencies

Leases

During 2008, the Company entered into a lease agreement and sublease agreement in order to consolidate the use and occupation of its then existing premises into two adjacent facilities, as described below. The Company also leases certain equipment and vehicles under operating leases which expire on various dates through 2018, and certain equipment under capital leases which expire on various dates through 2017.

In February 2008, the Company entered into a sublease agreement (the "Sublease"), for office, engineering, and research and development space. The Sublease term commenced May 2008 and ended on January 31, 2016. The Company renewed this Sublease in January 2016 with a commitment through July 2021.

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The Company was obligated under the Sublease to pay base rent and certain operating costs and taxes for the building. Monthly base rent payable by the Company was approximately $80,500 during the first year of the Sublease, increasing annually at a fixed annual rate of 2.5% to approximately $93,500 per month in the final year of the Sublease. The Company's rent was abated for months one through seven of the Sublease. At the sublease inception, the Company paid a security deposit in the amount of approximately $93,500.

In March 2008, the Company entered into a lease agreement (the "Lease") for additional office, engineering, research and development and warehouse and distribution space. The Lease term commenced on December 1, 2008 and ends on January 31, 2017. The Company is obligated under the Lease to pay base rent and certain operating costs and taxes for the building. The monthly base rent payable by the Company was approximately $73,500 during the first year of the Lease, increasing annually at a fixed annual rate of 3.0% to approximately $93,000 per month in the final year of the Lease. The Company's rent was abated for the months two through eight of the term of the Lease in the amount of $38,480. At the lease inception, the Company paid a security deposit in the amount of approximately $293,200 consisting of cash and two letters of credit. In the event the Company achieves certain financial milestones, the lessor is obligated to return a portion of the security deposit to the Company. The lessor provided a tenant improvement allowance of $1.1 million to assist with the configuration of the facility to meet the Company's business needs.

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

Year ending December 31,	Operating	Capital	
2016	$2,268	$877	
2017	823	437	
2018	304	68	
2019	170	—	
2020	5	—	
Thereafter	—	—	
	$3,570	1,382	
Less: amount representing interest		(105	)
Present value of minimum lease payments		1,277	
Current portion of capital leases		(797	)
Capital leases, less current portion		$480	

Rent expense under operating leases for the years ended December 31, 2015, 2014 and 2013 was $3.1 million, $3.4 million and $3.8 million, respectively.

Litigation

The Company is and may become involved in various legal proceedings arising from its business activities. While management is not aware of any litigation matter that in and of itself would have a material adverse impact on the Company's consolidated results of operations, cash flows or financial position, litigation is inherently unpredictable, and depending on the nature and timing of a proceeding, an unfavorable resolution could materially affect the Company's future consolidated results of operations, cash flows or financial position in a particular period. The Company assesses contingencies to determine the degree of probability and range of possible loss for potential accrual or disclosure in our consolidated financial statements. An estimated loss contingency is accrued in the Company's consolidated financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. When evaluating contingencies, the Company may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed in litigation against the Company may be unsupported, exaggerated or unrelated to reasonably possible outcomes, and as such are not meaningful indicators of the Company’s potential liability.

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Royalties

The Company has entered into various intellectual property agreements requiring the payment of royalties based on the sale of products that utilize such intellectual property. These royalties primarily relate to products sold by Alphatec Spine and are calculated either as a percentage of net sales or in one instance on a per-unit sold basis. Royalties are included on the accompanying consolidated statement of operations as a component of cost of revenues.

7. Redeemable Preferred Stock

The Company issued shares of redeemable preferred stock in connection with its initial public offering in June 2006. As of December 31, 2015, the redeemable preferred stock carrying value was $23.6 million and there were 20 million shares of redeemable preferred stock authorized. The redeemable preferred stock is not convertible into common stock but is redeemable at $9.00 per share, (i) upon the Company's liquidation, dissolution or winding up, or the occurrence of certain mergers, consolidations or sales of all or substantially all of the Company's assets, before any payment to the holders of the Company's common stock, or (ii) at the Company's option at any time. Holders of redeemable preferred stock are generally not entitled to vote on matters submitted to the stockholders, except with respect to certain matters that will affect them adversely as a class, and are not entitled to receive dividends. The carrying value of the redeemable preferred stock was $7.11 per share at December 31, 2015 and 2014.

The redeemable preferred stock is presented separately from stockholders' (deficit) equity in the consolidated balance sheets and any adjustments to its carrying value up to its redemption value of $9.00 per share will be reported as a dividend.

8. Equity Transactions

Deerfield Warrants

In connection with the execution of the Facility Agreement, on March 17, 2014, the Company issued to Deerfield the Initial Warrants to purchase an aggregate of 6,250,000 shares of the Company's common stock immediately exercisable at an exercise price equal to $1.39 expiring on March 17, 2020. The number of shares of common stock into which the Initial Warrants are exercisable and the exercise price will be adjusted to reflect any stock splits, payment of stock dividends, recapitalizations, reclassifications or other similar adjustments in the number of outstanding shares of the Company's common stock. The warrants have the same dividend rights to the same extent as if the warrants had been exercised for shares of common stock.

The Company agreed that upon each disbursement borrowing under the Facility Agreement, the Company would issue to Deerfield Draw Warrants to purchase up to an aggregate of 10,000,000 shares of the Company's common stock, at an exercise price equal to the lesser of the Initial Warrant exercise price or the average daily volume weighted average price per share of the Company's common stock for the 15 days following the request for borrowing. The number of Draw Warrants issued for each draw is in proportion to the amount of draw compared to the total $50 million facility.

The Initial Warrants were valued on March 17, 2014 using a Black-Scholes option pricing model that resulted in a value of $5.7 million, which was recorded as a current liability with an offset to a deferred charge asset and will be amortized on a straight line basis through interest expense over the term of the Facility Agreement commitment period ended January 30, 2015. To the extent the Company draws on the $50 million Facility Agreement, a proportionate amount of the unamortized current deferred charge are reclassified as debt discount and are being amortized through interest expense over the term of the debt using the effective interest method.

On March 20, 2014, the Company made an initial draw of $20 million under the Facility Agreement and received net proceeds of $19.5 million to fund the portion of the Orthotec settlement payment obligations that were due in 2014. In connection with this borrowing, the Company issued Draw Warrants to purchase 4,000,000 shares of common stock at an exercise price of $1.39. The Draw Warrants were valued at $4.7 million using the Black-Scholes option pricing model, which was recorded as a current liability with an offset to debt discount.

On November 21, 2014, the Company made a second draw of $6 million under the Facility Agreement and received net proceeds of $5.9 million to fund the portion of the Orthotec settlement payments payable through 2016. The $0.2 million transaction fee was recorded as a debt discount and is being amortized over the remaining term of the draw, which ends March 20, 2019. In connection with this borrowing, the Company issued Draw Warrants to purchase 1,200,000 shares of common stock at an exercise price of $1.39, which were valued at $0.9 million and recorded as a debt discount and is being amortized over the term of the draw.

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2015, the outstanding Initial Warrants and Draw Warrants to purchase an aggregate of 11,450,000 shares of common stock outstanding were revalued to their fair value with a gain recorded to to other income (expense) of $8.0 million for the year ended December 31, 2015. The warrant liability of $0.7 million is recorded as common stock warrant liabilities within current liabilities on the consolidated balance sheet as of December 31, 2015.

At December 31, 2015, the Company's outstanding warrants were valued using the Black-Scholes option pricing model. This is a Level 3 measurement using the following assumptions:

	December 31, 2015	
Risk-free interest rate	1.3	%
Dividend yield	—	%
Expected volatility	70	%
Expected life (years)	4.3	

SVB Warrants

In December 2011, in connection with the third amendment to former credit facility with the SiliconValley Bank ("SVB"), finance charges totaling $0.2 million were waived in exchange for the issuance to SVB of warrants to purchase 93,750 shares of the Company’s common stock. The warrants are immediately exercisable, can be exercised through a cashless exercise, have an exercise price of $1.60 per share and have a 10-year term.

9. Stock Benefit Plans and Stock-Based Compensation

In 2005, the Company adopted its 2005 Employee, Director, and Consultant Stock Plan (the “2005 Plan”). The 2005 Plan allows for the grant of options, restricted stock and restricted stock unit awards to employees, directors, and consultants of the Company. Since its adoption, the 2005 Plan has had 17,400,000 shares of common stock reserved for issuance. The Board of Directors determines the terms of the restricted stock, the terms of the restricted stock units, and the terms of the stock options, including the number of shares for which each option is granted, the exercise price, vesting schedule, expiration date, and whether restrictions will be imposed on the shares subject to options. Options granted under the 2005 Plan expire no later than 10 years from the date of grant (5 years for incentive stock options granted to holders of more than 10% of the Company’s voting stock). Options generally vest over a four year period and may be immediately exercisable upon a change of control of the Company. The exercise price of incentive stock options may not be less than 100% of the fair value of the Company’s common stock on the date of grant. The exercise price of any option granted to a 10% stockholder may be no less than 110% of the fair value of the Company’s common stock on the date of grant. At December 31, 2015, approximately 3.8 million shares of common stock remained available for issuance under the 2005 Plan. The 2005 Plan will expire in April 2016.

On July 30, 2014, the Company amended the 2005 Plan (the “Plan Amendment”) to authorize the granting of time-based and performance-based restricted stock units, which represent a contingent entitlement to receive shares of the Company’s common stock, to employees, directors and consultants of the Company under the Plan. Prior to the Plan Amendment, the Plan provided solely for the granting of stock options and restricted stock.

Stock Options

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A summary of the Company's stock option activity under the 2005 Plan and related information is as follows (in thousands, except as indicated and per share data):

	Shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at December 31, 2014	8,267	$2.08	7.35	$71
Granted	457	$1.28	—	—
Exercised	(5)	$—	—	—
Forfeited	(1,081)	$2.10	—	—
Outstanding at December 31, 2015	7,638	$2.03	6.36	$—
Options vested and exercisable at December 31, 2015	5,170	$2.25	5.63	$—
Options vested and expected to vest at December 31, 2015	7,304	$2.05	6.25	$—

The weighted-average grant-date fair value per share of stock options granted during the years ended December 31, 2015, 2014 and 2013 was $1.28, $0.81 and $1.09, respectively. The aggregate intrinsic value of options at December 31, 2015 is based on the Company's closing stock price on that date of $0.30 per share.
As of December 31, 2015, there was $2.4 million of unrecognized compensation expense for stock options and awards which is expected to be recognized on a straight-line basis over a weighted average period of approximately 1.8 years.
The total intrinsic value of options exercised was immaterial for the years ended December 31, 2015, 2014 and 2013.
Restricted Stock Awards
The following table summarizes information about the restricted stock awards activity (in thousands, except as indicated and per share data):

	Shares	Weighted average grant date fair value	Weighted average remaining recognition period (in years)
Unvested at December 31, 2014	690	$1.60	1.83
Awarded	291	$1.36	
Vested	(243)	$1.44	
Forfeited	(5)	$1.80	
Unvested at December 31, 2015	733	$1.55	0.88

The weighted average fair value per share of awards granted during the years ended December 31, 2015, 2014 and 2013 was $1.36, $1.32 and $1.97, respectively.
Performance-Based Restricted Stock Units
In July 2014, the Company granted 932,000 performance-based restricted stock units ("PSUs") to certain employees under its 2005 Plan. The PSUs vest based upon the Company's achievement of certain performance goals over the

period from July 1, 2014 through December 31, 2016. The number of PSUs that may vest varies between 0%-200% based on the achievement of such goals. The PSUs were valued at $1.42 per share based on the closing price of the Company's common stock on the date of grant.

In February 2015, the Company granted 1,854,000 PSUs to certain employees under its 2005 Plan. The PSUs vest based upon the Company's achievement of certain performance goals over the period from January 1, 2015 through December 31, 2017. The number of PSUs that may vest varies between 0%-200% based on the achievement of such goals. The PSUs were valued at $1.35 per share based on the closing price of the Company's common stock on the date of grant.

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For purposes of measuring compensation expense, the amount of PSUs ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. The related compensation expense was $0.2 million, $0.2 million and $0.0 million for the years ended December 31, 2015, 2014 and 2013, respectively. The recognition of compensation expense associated with PSUs requires judgment in assessing the probability of meeting the performance goals, as well as defined criteria for assessing achievement of the performance-related goals (in thousands, except as indicated and per share data):

	Shares	Weighted average grant date fair value	Weighted average remaining recognition period (in years)
Unvested at December 31, 2014	854	$ 1.42	2.00
Awarded	1,854	$ 1.34	
Vested	—	$—	
Forfeited	(338)	$ 1.36	
Unvested at December 31, 2015	2,370	$ 1.37	1.67

Elite Medical Holdings and Pac 3 Surgical Collaboration Agreement

In October 2013, the Company entered into a three-year collaboration agreement with Elite Medical Holdings, LLC and Pac 3 Surgical Products, LLC (the "Collaborators") (the "Collaboration Agreement") to provide consultation services to assist the Company in the development of its products and its products in development. Under the terms of the collaboration agreement, the Company will gain exclusive rights to the use of all intellectual property developed by the collaborators. The Company agreed to make three annual payments to the collaborator as sole consideration for services provided, totaling an aggregate of up to $8 million, paid in common stock of Alphatec Holdings at a per share price of $1.95, which was equal to the average NASDAQ closing price of the common stock on the five days leading up to and including the date of signing the Collaboration Agreement. The actual number of shares issued each year will be determined by the fair market value of the services provided over the prior 12 months.

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

Based on the closing price of the Company's common stock on December 31, 2015, the Company has recorded a guaranteed compensation liability of $4.9 million for shares of the Company's common stock previously issued under the Collaboration Agreement, with $2.2 million payable in January of 2017, $2.2 million payable in January of 2018 and $0.5 million payable in January of 2019. This liability is presented under other long-term liabilities in the consolidated balance sheet. In addition, based on the closing price of the Company's common stock on December 31, 2015, the Company would have an additional cash liability of $2.1 million for shares of the Company's common stock issuable under the remaining terms of the Collaboration Agreement (assuming that all of the shares issuable under the Collaboration Agreement are issued) payable in 2019 in addition to the amount accrued above. If the Collaborators elect to sell, assign or transfer: (i) more than 20% of the shares issued to the Collaborators prior to the first valuation date; or (ii) any of the Collaborator shares still subject to a lockup after the first valuation date, all of the aforementioned restrictions on transfer and valuation minimums and maximums are null and void.

As of December 31, 2015, the Company has issued 2,780,787 shares of its common stock under this agreement and recorded expense of $4.9 million, $1.9 million and $0.5 million in the years ended December 31, 2015, 2014 and 2013, respectively, which is included in research and development expenses.

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following (in thousands):

	December 31, 2015
Stock options outstanding	7,638
Awards outstanding	733
Performance restricted stock units outstanding	2,370
Warrants outstanding	11,544
Authorized for future grant under 2005 Plan	3,840
	26,125

10. Income Taxes

The components of the pretax loss from operations for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
U.S. Domestic	$(90,342)	$(8,106)	$(9,264)
Foreign	(87,653)	(3,689)	(69,784)
Pretax loss from operations	$(177,995)	$(11,795)	$(79,048)

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

	Year Ended December 31,		
	2015	2014	2013
Current income tax expense (benefit):			
Federal	$221	$—	$(21)
State	149	145	186
Foreign	634	526	2,525
Total current	1,004	671	2,690
Deferred income tax (benefit) expense:			
Federal	(1,363)	238	229
State	(154)	24	15
Foreign	1,194	154	245
Total deferred	(323)	416	489
Total income tax expense	$681	$1,087	$3,179

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	December 31, 2015		2014		2013	
Federal statutory rate	(35.0	)%	(35.0	)%	(35.0	)%
Adjustments for tax effects of:						
State taxes, net	(0.3	)	(1.1	)	(0.1	)
Stock-based compensation	0.3		6.2		0.5	
Foreign taxes	0.2		3.4		1.1	
Tax credits	(0.3	)	(3.3	)	(0.4	)
Deemed foreign dividend	0.1		—		—	
Fair market value adjustments	(1.6	)	(7.6	)	—	
Intercompany debt forgiveness and other permanent adjustments	0.6		3.1		9.5	
Goodwill impairment	29.1		—		—	
Tax rate adjustment	0.4		0.4		0.2	
Uncertain tax positions	(0.1	)	5.3		2.7	
Other	3.1		0.2		(0.4	)
Valuation allowance	3.8		37.5		25.9	
Effective income tax rate	0.3	%	9.1	%	4.0	%

The 2015 provision for income taxes primarily consists of goodwill impairment, an increase in unrecognized tax benefits associated with the European operations, tax expense related to non-income based state tax in the U.S., an increase in the valuation allowance for Japanese deferred tax assets and current year income in Japan and Brazil.
Significant components of the Company’s deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows (in thousands):

	December 31, 2015		2014	
Deferred tax assets:				
Allowances and reserves	$955		$818	
Accrued expenses	2,331		3,674	
Inventory reserves	9,631		8,532	
Net operating loss carryforwards	43,427		41,965	
Property and equipment	2,420		1,976	
Stock-based compensation	2,377		2,168	
Legal settlement	11,806		1,204	
Goodwill	3,362		—	
Income tax credit carryforwards	3,235		2,218	
Total deferred tax assets	79,544		62,555	
Valuation allowance	(63,612	)	(58,781	)
Total deferred tax assets, net of valuation allowance	15,932		3,774	
Deferred tax liabilities:				

Investment in foreign partnership	15,467	—
Intangible assets	465	2,881
Goodwill	—	1,518
Total deferred tax liabilities	15,932	4,399
Net deferred tax assets (liabilities)	$—	$(625)

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ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The realization of deferred tax assets is dependent on the Company's ability to generate sufficient taxable income in future years in the associated jurisdiction to which the deferred tax assets relate. As of December 31, 2015, a valuation allowance of $63.6 million has been established against the net deferred tax assets as realization is uncertain. The deferred tax liabilities consist primarily of the excess of the book value over the tax basis of their investment in the foreign partnership.

In determining the need for a valuation allowance the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Based on the review of all positive and negative evidence, including a three year cumulative pre-tax loss, the Company determined that a full valuation allowance should be recorded against all deferred tax assets at December 31, 2015.

At December 31, 2015, the Company has unrecognized tax benefits of $10.4 million of which $8.9 million will affect the effective tax rate if recognized when the Company no longer has a valuation allowance offsetting its deferred tax assets.

The following table summarizes the changes to unrecognized tax benefits for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Year ended December 31,		
	2015	2014	2013
Unrecognized tax benefit at the beginning of the year	8,861	7,835	5,897
Additions based on tax positions related to the current year	859	1,050	1,664
Additions based on tax positions related to the prior year	1,144	391	221
Reductions as a result of lapse of applicable statute of limitations	(76)	(40)	(20)
Reductions as a result of foreign exchange rates and other	(429)	(375)	73
Unrecognized tax benefits at the end of the year	$10,359	$8,861	$7,835

The Company believes it is reasonably possible it will not materially reduce its unrecognized tax benefits within the next 12 months.

The Company and its subsidiaries are subject to federal income tax as well as income tax of multiple state and foreign jurisdictions. With few exceptions, the Company is no longer subject to income tax examination by tax authorities in major jurisdictions for years prior to 2010. However, to the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses and tax credits were generated and carried forward, and make adjustments up to the amount of the carryforwards. The Company is not currently under examination by the Internal Revenue Service, foreign or state and local tax authorities.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. As of December 31, 2015, accrued interest and penalties were $1.2 million, which primarily relates to the uncertain tax positions of the Scient'x operations. During 2015, there was an increase of $0.1 million in the accrued interest and penalties related to the uncertain tax positions of the Scient'x operations.

At December 31, 2015, the Company had federal and state net operating loss carryforwards of $91.1 million and $90.4 million, respectively, expiring at various dates through 2035. At December 31, 2015, the Company had federal and state research and development tax credits of $3.3 million and $3.0 million, respectively. The federal research and development tax credits expire at various dates through 2035, while the state credits do not expire. The Company had foreign net operating loss carryforwards of $37.6 million beginning to expire in 2018. Utilization of the net operating loss and tax credit carryforwards may become subject to annual limitations due to ownership change limitations that could occur in the future as provided by Section 382 of the Internal Revenue Code of 1986, as amended (the "Internal

Revenue Code”), as well as similar state and foreign provisions. These ownership changes may limit the amount of the net operating loss and tax credit carryforwards that can be utilized annually to offset future taxable income.

The Company does not record U.S. income taxes on the undistributed earnings of its foreign subsidiaries based upon the Company’s intention to permanently reinvest undistributed earnings to ensure sufficient working capital and further expansion of existing operations outside the United States. The undistributed earnings of the foreign subsidiaries as of December 31, 2015 are immaterial. In the event the Company is required to repatriate funds from outside of the United States, such repatriation would be subject to local laws, customs, and tax consequences. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.

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ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Under current GAAP, in a classified statement of financial position, deferred tax assets and liabilities are separated into a current amount and a non-current amount on the basis of the classification of the related asset or liability for financial reporting. Deferred tax assets and liabilities that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. On November 20, 2015, the FASB issued Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes which requires noncurrent classification of all deferred tax assets and liabilities for all public entities for annual periods beginning after December 15, 2016. Accounting Standards Update 2015-17 also provides for early adoption for all entities as of the beginning of an annual period. For the year ended December 31, 2015, the Company has elected to early adopt Accounting Standards Update 2015-17 and presents all of its deferred tax assets and liabilities as non-current for the period ended December 31, 2015. The Company has applied the Standard on a prospective basis. Therefore, the classification of deferred tax assets and liabilities in periods prior to the period ended December 31, 2015 has not been changed from the original presentation.

11. Segment and Geographical Information

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company operates in one reportable business segment.

During the years ended December 31, 2015, 2014 and 2013, the Company operated in two geographic regions, consisting of the U.S. region and the International region. The International region consists of locations outside of the U.S. In the International region, sales in Japan for the years ended December 31, 2015, 2014 and 2013 totaled $33.0 million, $31.9 million and $28.0 million, respectively, which represented greater than 10 percent of the Company's consolidated revenues for such years. For the years ended December 31, 2015, 2014 and 2013, sales in other individual countries included in the International region did not exceed 10 percent of consolidated revenues.

Revenues attributed to the geographic location of the customers were as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
United States	$114,578	$137,060	$134,951
International	70,701	69,920	69,773
Total consolidated revenues	$185,279	$206,980	$204,724

Total assets by geographic region were as follows (in thousands):

	December 31,	
	2015	2014
United States	$97,967	$200,978
International	48,737	143,945
Total consolidated assets	$146,704	$344,923

12. Related Party Transactions

For the years ended December 31, 2015, 2014 and 2013, the Company incurred costs of less than $0.1 million, $0.2 million and $0.2 million, respectively, to Foster Management Company and HealthpointCapital, LLC for travel and administrative expenses. John H. Foster, who was one of the Company's directors until March 2, 2016 is a significant equity holder of HealthpointCapital, LLC, an affiliate of HealthpointCapital Partners, L.P. and HealthpointCapital Partners II, L.P., which are the Company's principal stockholders.

Indemnification Agreements

The Company has entered into indemnification agreements with certain of its directors, which are named defendants in the Orthotec litigation matter in New York (See Note 6). The indemnification agreements require the Company to indemnify these individuals to the fullest extent permitted by applicable law and to advance expenses incurred by them in connection with any proceeding against them with respect to which they may be entitled to indemnification by the Company. For the years ended December 31, 2015, 2014 and 2013, the Company paid less than $0.1 million, less than $0.1 million and $1.7 million, respectively, in connection with the indemnification obligations of Scient'x and Surgiview, all of which was related to the Orthotec matter. (See Note 6).

13. Retirement Plan

The Company maintains an employee savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the savings plan, participating employees may contribute a portion of their pre-tax earnings, up to the Internal Revenue Service annual contribution limit. Additionally, the Company may elect to make matching contributions into the savings plan at its sole discretion of up to 4% of each individual's compensation. Matching contributions vest after one year of service. The Company's total contributions to the 401(k) plan were $0.6 million in each of the years ended December 31, 2015, 2014 and 2013.

14. Restructuring Activities

In 2013, the Company announced that Scient'x began a process to significantly restructure its business operations in France in an effort to improve operating efficiencies and rationalize its cost structure and in 2015 the Company iniitated plans to close its French operations. The restructuring included a reduction in Scient'x's workforce and closing of the manufacturing facilities in France. The Company has recorded total costs of $10.6 million through December 31, 2015, which includes employee severance, social plan benefits and related taxes, facility closing costs, manufacturing transfer costs, and contract termination costs. The Company has substantially completed the activities associated with the restructuring as of December 31, 2015, and majority of the related liabilities have been settled.

In connection with the restructuring plan, the Company modified its estimate of inventory and instrument net book value at its Scient'x entities based on revised global demand. The Company recorded an additional inventory reserve of $4.9 million in the year ended December 31, 2013 which is included in cost of goods sold within the consolidated statements of operations.

On July 6, 2015, the Company announced a restructuring of its manufacturing operations in California in an effort to improve its cost structure. The restructuring includes a reduction in workforce and closing the California manufacturing facility. Restructuring liabilities are measured at fair value and recognized as incurred. The restructuring will be completed in 2016 and the Company estimates that it will incur termination benefits, accelerated depreciation, facility closing and other restructuring costs of up to $4 million. The Company incurred expenses of $2.2 million in the year ended December 31, 2015 related to these restructuring activities.

15. Cross Medical

On February 12, 2010, a complaint was filed in the U.S. District Court for the Central District of California, by Cross Medical Products, LLC, or Cross, (a subsidiary of Biomet), Cross Medical Products, LLC v. Alphatec Spine, Inc., Case No. 8:10-cv-176-MRP -MLG, alleging that we breached a patent license agreement with Cross by failing to make certain royalty payments allegedly due under the agreement. Cross was seeking payment of prior royalties allegedly due from the Company's sales of polyaxial screws and an order from the court regarding payment of future royalties by us. In its complaint, Cross alleged a material amount of damages were due to it as a result of our alleged breach of the patent license agreement.

In January 2011, we filed a complaint in the U.S. District Court for the Southern District of California against Biomet, Inc., or Biomet, alleging that Biomet's TPS-TL products infringe one of our patents. On December 30, 2011, we reached a global settlement agreement of the pending lawsuits with Biomet and Cross. Under the terms of the settlement, all parties obtained a release of all claims that were the subject of the disputes. No party has admitted liability in connection with the settlement. The settlement also includes an amendment to the April 23, 2003 License Agreement.

As part of the settlement, we agreed to pay Cross an initial payment of $5 million, which was paid in January 2012. In addition to the initial payment, we agreed to make thirteen quarterly payments of $1 million beginning on August 1, 2012, with each subsequent payment due three months thereafter until the final payment in August 2015. The remaining cash obligations totaling $3 million were paid in 2015. In addition, pursuant to the settlement, the parties have exchanged covenants not to sue for patent infringement with respect to products that each respective company had on the market as of December 30, 2011.

ALPHATEC HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

16. Quarterly Financial Data (Unaudited)

The following financial information reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for fiscal 2015 and 2014 are as follows (in thousands, except per share data):

	Year ended December 31, 2015			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Selected quarterly financial data:				
Revenue	$48,647	$46,633	$42,996	$47,003
Gross profit	32,943	27,527	28,479	31,135
Total operating expenses	31,801	30,354	193,427	36,941
Net loss	(4,561)	(3,947)	(160,265)	(9,903)
Net loss per basic share (1)	(0.05)	(0.04)	(1.61)	(0.10)
Net loss per diluted share (1)	(0.05)	(0.04)	(1.61)	(0.10)

	Year ended December 31, 2014			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Selected quarterly financial data:				
Revenue	$49,173	$53,167	$51,013	$53,627
Gross profit	33,294	36,120	36,306	37,690
Total operating expenses	37,996	34,279	34,574	34,717
Net loss	(6,673)	(2,895)	(3,041)	(273)
Net loss per basic share (1)	(0.07)	(0.03)	(0.03)	0.00
Net loss per diluted share (1)	(0.07)	(0.03)	(0.04)	(0.03)

(1) Basic and diluted net loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts will not necessarily equal the total for the year.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts (1)	Reserve for Excess and Obsolete Inventories (2)
	(In thousands)	
Balance at December 31, 2012	$1,074	$17,222
Provision	404	11,652
Write-offs and recoveries, net	(430)	(4,928)
Balance at December 31, 2013	1,048	23,946
Provision	522	3,539
Write-offs and recoveries, net	(777)	(6,160)
Balance at December 31, 2014	793	21,325
Provision	584	2,159
Write-offs and recoveries, net	(315)	(3,854)
Balance at December 31, 2015	$1,062	$19,630

(1) The provision is included in selling expenses.
(2) The provision is included in cost of revenues.

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