MIMEDX GROUP, INC.
Form 10-K
March 29, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011

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

For the transition period from _____to _____

Commission file number 0-52491

MIMEDX GROUP, INC.
(Exact name of registrant as specified in its charter)

Florida	26-2792552
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)
60 Chastain Center Boulevard, Suite 60 Kennesaw, GA	30144
(Address of principal executive offices)	(Zip Code)

(678) 384-6720
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.001 per share
(Title of class)

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

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No R

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

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

Large accelerated filer £	Accelerated filer £	Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting Company R

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No R

The aggregate market value of Common Stock held by non-affiliates on June 30, 2011, based upon the last sale price of the shares as reported on the OTC Bulletin Board on such date, was approximately $74,383,364.

There were 75,037,425 shares of Common Stock outstanding as of March 15, 2012.

Documents Incorporated by Reference

Portions of the proxy statement relating to the 2012 annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year to which this report relates, are incorporated by reference in Part III of this Report.

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PART I

This Form 10-K and certain information incorporated herein by reference contain forward-looking statements and information within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. This information includes assumptions made by, and information currently available to management, including statements regarding future economic performance and financial condition, liquidity and capital resources, acceptance of the Company's products by the market, and management's plans and objectives. In addition, certain statements included in this and our future filings with the Securities and Exchange Commission ("SEC"), in press releases, and in oral and written statements made by us or with our approval, which are not statements of historical fact, are forward-looking statements. Words such as "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "seeks," "plan," "project," "will," "should," and other words or expressions of similar meaning are intended by us to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements are found at various places throughout this report and in the documents incorporated herein by reference. These statements are based on our current expectations about future events or results and information that is currently available to us, involve assumptions, risks, and uncertainties, and speak only as of the date on which such statements are made.

Our actual results may differ materially from those expressed or implied in these forward-looking statements. Factors that may cause such a difference, include, but are not limited to those discussed in Part I, Item 1A, "Risk Factors," below. Except as expressly required by the federal securities laws, we undertake no obligation to update any such factors, or to publicly announce the results of, or changes to any of the forward-looking statements contained herein to reflect future events, developments, changed circumstances, or for any other reason.

As used herein, the terms "MiMedx," "the Company," "we," "our" and "us" refer to MiMedx Group, Inc., a Florida corporation and its consolidated subsidiaries as a combined entity, except where it is clear that the terms mean only MiMedx Group, Inc.

Item 1. Business

Overview

MiMedx Group, Inc. was incorporated in Florida on February 28, 2008. MiMedx® is an integrated developer, manufacturer and marketer of patent protected regenerative biomaterial products and allografts processed from human amniotic membrane. "Innovations in Regenerative Biomaterials" is the framework behind our mission to give physicians products and tissues to help the body heal itself. Our biomaterial platform technologies include the device technologies HydroFix® and CollaFixTM, and our tissue technologies, AmnioFix® and EpiFix®.

Recent Events

On January 5, 2011, the Company acquired all of the outstanding equity interests in Surgical Biologics, LLC, for an aggregate of $500,000 in cash, $1,250,000 in notes payable, 5,250,000 shares of MiMedx Common Stock, $183,000 in debt, and certain additional contingent consideration.

Located in Kennesaw, Georgia, Surgical Biologics develops allografts and other products processed from human amniotic membrane that can be used for a wide range of medical applications, including ocular surface repair, gum repair, wound care, nerve and tendon repair, spine repair, burn treatment, and many other types of procedures that require the repair of a patient's integumental (native) tissue. This strategic acquisition brings together amnion tissue processing technology with our global distribution network in order to position the Company for market opportunities

across multiple indications.

Surgical Biologics has developed a specialized process for the processing of amniotic membrane to produce a safe, effective and minimally manipulated allograft for homologous use. This patent pending process, named Purion®, was engineered to maximize yield, while minimizing processing costs and to create an allograft that is optimized for ease of use while providing the patient with the maximum assurance of safety. Surgical Biologics' amniotic membrane allografts have unique "bio-active" properties that offer benefits that most competitive products cannot offer. Surgical Biologic's tissues provide anti-inflammatory, anti-immunogenic, anti-scarring and barrier properties, as well as enhanced healing at the surgical site.

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At the time of the acquisition, Surgical Biologics distributed tissue in several different membrane sub segments, such as ocular, dental, and spine. During 2011, the Company launched EpiFix®, an allograft specifically processed to offer a wide variety of wound healing and wound care options. Much of the clinical usage of EpiFix® has been for wound care patients suffering from diabetic ulcers, pressure ulcers, vein circulation ulcers, or artery circulation ulcers.

The Company further expanded its amnion product offering in 2011 with the introduction of AmnioFix® Wrap for both nerve and tendon repair applications. Subsequent to year end, the Company announced the launch of AmnioFix® Injectable, which is an allograft composed of micronized amniotic tissue, uniquely processed to optimize performance and ease of use.

On the device technology side of our business, during 2011, the Company received 510(k) clearance for our HydroFix® Orthoshield device, which is indicated for the management and protection of tendon injuries in which there has been no substantial loss of tendon tissue. Also in 2012, the Company received the CE certification for the Company's proprietary CollaFixTM Surgical Mesh CD, which is a Class III product in Europe.

Our Technology and Products

AmnioFix® and EpiFix®

MiMedx is the leading supplier of allografts processed from amniotic tissue, having supplied over 70,000 allografts to date for application in the Ophthalmic, Orthopedic, Dental, Spinal and Wound Care segments of healthcare.

Our current amnion products, AmnioFix® and EpiFix®, are processed from human tissue according to the American Association of Tissue Banks (AATB) regulations, and are considered tissue under Section 361 of the Public Health Service Act. This means that AmnioFix® and EpiFix® are regulated differently than the other two MiMedx platform technologies, CollaFixTM and HydroFix®, which are regulated as medical devices and therefore need FDA clearances or approvals prior to marketing in the United States. Because AmnioFix® and EpiFix® are regulated as tissue, they do not need premarket clearance or approval in the United States, which accelerates our ability to bring new products to market. Please refer to the Government Regulation section of this document for additional discussion regarding the regulatory pathways of our technologies.

The AmnioFix® and EpiFix® allografts can be used for a wide range of procedures including ocular surface repair, gingival recession repair, wound care, burns, and many other types of procedures for the repair of a patient's integumental (native) tissue. As discussed above, amniotic membrane, as processed by MiMedx, has unique "bio-active" properties that offer benefits that most competitive products cannot offer.

Natural human amniotic membrane is composed of multiple layers that contain:

- Structural proteins:
  - Collagen types IV, V, and VII
  - Elastin
- Specialized proteins:
  - Fibrillin
  - Fibronectin
  - Laminins
  - TIMPs 1,2,4, Tissue Inhibitor of Metalloproteinase 1, 2, 4
- Growth Factors:
  - Epidermal Growth Factor (EGF)
  - Transforming Growth Factor Beta (TGF-)
  - Fibroblast Growth Factor (FGF)

- Platelet Derived Growth Factors A & B (PDGF A&B)

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Amniotic membranes have been used clinically for over 100 years. The first clinical uses of fresh amnion were for wound care patients and burn victims. There have been over 150 publications on the use of amniotic membrane for uses ranging from wound care to gingival recession and from pterygium repair to reduction of fibrous tissue following spinal surgery. The amniotic membrane has been shown to reduce inflammation, down regulate scar tissue and promote the regeneration of soft tissues.

Amniotic membrane has been shown to lack certain HLA antigens that elicit an immune response. Amniotic Membrane is considered immunoprivileged. Some dehydrated amniotic membranes include the epithelial layer, which studies have shown contributes significant immunosuppressive properties to dehydrated amniotic membrane products.

Our Purion® process for both AmnioFix® and EpiFix® is a proprietary tissue processing technology that produces an allograft which is safe, effective, and minimally manipulated. Critical processing steps, including sterilization, have been validated to ensure tissue integrity and safety. Our unique processing technique specifically focuses on maintaining the delicate multi-layered structure and collagen matrix of the tissue. The Purion® process does not subject materials to ultra low temperature conditions during processing or storage. This technique helps maintain graft structure, provides optimal performance and allows the allograft to be stored at room temperature. Additionally, each allograft incorporates specialized visual embossments that assist the surgeon with proper graft placement and orientation.

Our team is dedicated to providing safe, superior allografts that exceed customer expectations. To better satisfy the requirements and expectations of our customers, the Company maintains strict control on quality from the time of procurement. The Company has developed and implemented a Quality Management System in compliance with both the Food and Drug Administration (FDA) and the AATB. Using this Quality Management System, the Company maintains strict control over each step of the manufacturing process.

In addition to regulating recovery and processing activities, the Company has also established guidelines for donor eligibility, screening and testing. All donor records and test results are reviewed by our Medical Director prior to the release of the tissue. Only tissue from donors that test negative or non-reactive for infectious diseases and acceptable bacterial results are released for transplant.

The Company continues to research new opportunities for amniotic tissue, and currently has several additional offerings in various stages of conceptualization and development.

CollaFixTM

Our CollaFixTM technology combines an innovative means of creating fibers from soluble collagen and a specialized cross-linking process. MiMedx utilizes two separate cross-linking technologies for various applications. Initial laboratory and animal testing shows that the cross-linked collagen fibers produce a very strong, biocompatible, and durable construct that can be transformed into surgical meshes intended to treat a number of orthopedic soft-tissue trauma and disease disorders.

Embodiments and benefits of products that we believe, based on preliminary studies, could be developed using this licensed technology are:

- Initial tests of cross-linked fibers appear to demonstrate they are stronger than existing collagenous tissue, including healthy tendons and ligaments. These fibers form the fundamental unit from which a variety of devices could be configured as follows:

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- Linear and braided arrays for tendon and ligament repair
- Cross-helical arrays forming tubular structures that also can be cut to form flat patches
- Woven meshes for general surgical use;

- CollaFixTM biomaterials have been tested and results preliminarily suggest that the materials are biocompatible and biodegradable;

- CollaFixTM Biomaterials coupled with MiMedx proprietary NDGA (nordihydroguaiaretic acid) polymerization can be used to coat synthetic indwelling medical devices to improve their biocompatibility;

- NDGA treatment of xenograft (animal in origin) and allograft (human in origin) materials could make them more biocompatible and possibly improve functional lifetime; and
- Cross-linked collagen-based biorivets have the potential to be used for bone fracture fixation.

Our core collagen technology is protected by patents, patent applications and trade secrets. The core patent covers the polymerization chemistry of NDGA as applied to biological materials, bioprostheses, or devices created through its application. It covers chemistries and compounds that have the reactive groups that are responsible for the effectiveness of NDGA, including a variety of organically synthesized NDGA analogs and natural compounds. Multiple medical products potentially could be developed and patented that are all tied to the core patented technology. Our core fiber technology is a closely guarded trade secret.

In January 2012, the Company received the CE certification for its proprietary CollaFixTM Surgical Mesh CD, which is a Class III product in Europe. The certification was issued by the Company's notified body, AMTAC Certification Services, Limited, based in the United Kingdom. The CE marking, also known as "CE Mark," is a mandatory conformity mark on medical devices placed on the market in the European Economic Area (EEA). The CE mark certifies that a product is compliant with the European Council Directive 93/42/EEC concerning medical devices, also known as the Medical Device Directive or MDD. To date, we have not yet received any U.S. clearances or approvals for CollaFixTM.

We may license rights to specific aspects of our collagen technology to third parties for use in applications and indications that we choose not to exploit ourselves.

HydroFix®

We license rights to a PVA polymer, which is a water-based biomaterial that can be manufactured with a wide range of mechanical properties, including those that appear to mimic closely the mechanical and physical properties of natural, healthy human tissue. This hydrogel has been used in other orthopedic and general surgery device applications, and it has demonstrated biocompatibility and durability inside the human body. Regulatory agencies both inside and outside the United States have cleared the hydrogel material for use inside the body for several applications. For example, in the United States, the FDA has cleared devices using the hydrogel material for use as a cover for vessels following anterior vertebral surgery as well as for use next to nerves. In the European Union and Canada, devices using the hydrogel material have been cleared for use next to nerves, to replace worn-out and lesioned cartilage in the knee, and as a post-surgical adhesion inhibiting barrier for spine surgeries in specific locations.

On April 20, 2009, we received FDA clearance via a 510(k), for our Paradís Vaso Shield™, later renamed HydroFix® Vaso Shield (the "Vaso Shield"), which is a vessel guard made of our hydrogel material. Protection of veins and arteries is a common issue associated with many types of surgeries. Protection of the aorta, vena cava, iliac vessels and other anatomy is particularly important in anterior spine surgery. The HydroFix® Vaso Shield was designed to help physicians protect vessels during anterior vertebral surgery. The FDA cleared the HydroFix® Vaso Shield as a vessel guard or cover during anterior vertebral surgery, however, the safety and effectiveness of this device for reducing the incidence, severity and extent of post-operative adhesion formation has not been established. During 2011, the Company received two additional 510(k) clearances for its HydroFix® VasoShield device; one for an expanded range of sizes and for a higher temperature exposure limit, and the second for additional information to be included in the marketing materials.

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We have a similar version of the product for the European market called HydroFix® Spine Shield, which has received two CE marks. The device is classified as a post-surgical adhesion inhibiting barrier and is used in specific spine surgeries. In April 2010, Spine Shield Class IIb for only anterior use with no contact with the central nervous system or central circulatory system received the CE mark. In December the original HydroFix® Spine Shield (for Anterior use Class IIb in Europe) was renamed to be HydroFix® Anterior Shield and the HydroFix® Spine Shield Product was CE marked for applications in contact with the central circulatory system and central nervous system (Class III in Europe). The CE marked HydroFix® Spine Shield is not available in the United States.

During 2011, the Company received 510(k) clearance for its HydroFix® OrthoShield device, which is indicated for the management and protection of tendon injuries in which there has been no substantial loss of tendon tissue. The OrthoShield device is a permanent, protective sheet that minimizes soft tissue attachments to the device providing a protective environment for the repaired tendon to heal. The device is conformable, suturable, and biocompatible, providing surgeons with an easy to use option for tendon protection. The device also provides a smooth inner gliding surface for the tendon to move as part of normal motion.

Market Opportunity

The Company is a regenerative biomaterials company with three platform technologies. Our largest addressable market is in chronic wound care consisting of diabetic, venous and pressure ulcers. The Sports Medicine, General Surgery and OB/GYN soft tissue repair markets also represent significant market opportunities.

Each platform technology has competitive advantages that support our projected growth. Amniotic membrane has unique “bio-active” properties that offer benefits that most competitive products cannot offer. Surgical Biologic’s tissues provide anti-inflammatory, anti-scarring and barrier properties as well as enhanced healing at the surgical or wound site. It also can be stored at room temperature, with a five year shelf life and is easy for the physician to handle when treating a patient. Our CollaFixTM platform is the first biological, biodegradable, biomimetic technology that matches a human tendon in strength and stiffness. It also acts as a scaffold for cellular in-growth. Our HydroFix® platform has a micro pore structure that prohibits cellular attachment and has a very low immunogenic response.

The Company is focused primarily on the United States and Europe but will pursue other individual markets based upon the specific opportunity. The adoption of the technologies may vary depending on each country’s regulations, but the opportunities to help individuals in the different disease states remain similar and large.

In the US, the two key areas of focus for the products we market currently are the chronic wound care and orthopedic (including spine) markets. There are an estimated five million patients that have chronic wounds due to compromised health, such as poor circulation or diabetes and do not heal with traditional wound care therapies and an estimated three million people needing some type of restorative sports medicine or spinal treatment. Our tissue technologies have shown marked improvements in healing these patients after remarkably short treatment periods. In the future, our tissue platforms will help reduce scarring in a variety of applications, including the estimated two million patients annually undergoing elective aesthetic procedures to reduce the signs of aging or the estimated almost one million patients annually undergoing some type of abdominal surgery where scarring can limit the ability to reproduce, reduce sexual function, or generate post-operative pain.

In Europe, the Company has similar opportunities to treat large populations of patients with our regenerative biomaterials. We believe there is tremendous opportunity to treat a variety of conditions, including close to seven million chronic wounds and burns, and close to one million tendon or ligament repair/ reconstructions.

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Wound Care

The types of wounds that present themselves to physicians on a daily bases are diverse. There are acute wounds caused by surgical intervention, trauma and burns. The market revenue for biomaterials in wound care is expected to rise at an accelerated compound annual growth rate of 16.5% from 2006-2013 according to the Frost and Sullivan US Interactive Wound Care Markets Report for 2008.

Approximately 6,700,000 chronic wounds are treated in the US annually. Chronic wounds are defined as wounds that are delayed in closing compared to healing in an otherwise healthy individual. Some of the most common types of chronic wounds are diabetic foot ulcers, venous leg ulcers, pressure ulcers, arterial ulcers, and surgical wounds that become infected. MiMedx currently intends to focus on two primary chronic wound markets, which are venous leg ulcers and diabetic foot ulcers.

The physician's goal when treating traumatic wounds is to heal the wound, but allowing the patient to retain natural function in the area of the wound with minimal scarring and infection. If a wound becomes infected, it can lead to a loss of limb or life. For the most part, physicians heal acute wounds without incident, but with scarring. However, physicians dealing with chronic wounds are mainly concerned with closing the wound as quickly as possible to minimize the risk of an infection that could lead to loss of limb or life.

EpiFix® Dehydrated Human Amniotic Membrane Allograft acts as a tissue regeneration graft that delivers essential wound healing factors, extracellular matrix proteins and inflammatory mediators to help reduce inflammation, enhance healing, and reduce scar tissue formation. EpiFix® is used for the treatment of all types of chronic and acute, partial and full-thickness wounds. EpiFix® is not limited to a specific wound type by the FDA like other technologies and is allowed to be used to heal all types of wounds. EpiFix® is a biologically active tissue allograft that stores at room temperature (0°-38°C) for up to five years. Certain cultured skin substitutes currently on the market require -80°C storage and expire only six months from time of manufacture. Another leading skin substitute is delivered on demand and has strict temperature controls between 20° - 23° Celsius with a ten day shelf-life. These competitors' logistics complications highlight the distinct advantages of EpiFix®.

In addition, our strategic move to supply multiple sizes of grafts (16mm disc, 2x3 cm, 4x4 cm, 7x7cm) minimizes product waste. Both of the two leading competitors' products come in only one size each, 2 inch x 3 inch (38 cm2) and 75mm disc (42 cm2). Since the average diabetic ulcers are approximately 2.5 cm2, using one of the competitors' products would result in significant waste.

Chronic Sports/Work Tissue Injury

AmnioFix® Injectable addresses the chronic sports/work soft tissue injury market including but not limited to tennis elbow, golfers elbow, plantar fasciitis, tendonitis, bursitis and sprains. Soft tissue injuries are often caused by either a trauma or overuse of the affected area. Micro-tears in the tissue form and become inflamed. Scar tissue may form and impede a full recovery. Steroids are often used as a first line to help the patient cope with the pain and assist with recovery. There are a number of patients that do not get relief with steroids or do not want to use steroids, and over-use of steroids can cause long-term damage to the tissue. We believe AmnioFix® Injectable is the best option for the patient to help to reduce inflammation and scar formation, and enhance healing of micro-tears in soft tissue.

Spine Repair and Vessel Protection

Our AmnioFix® technology also is used as a graft to reduce the amount of scar tissue formation, provide a local anti-inflammatory and help with the soft tissue healing of the area. A reduction of scar tissue is necessary if the patient needs to have an additional surgical procedure in the future, as it may facilitate the re-access to the surgical site as well

as help with scar attachment to the spinal dura. There are approximately 850,000 spinal surgeries per year(1) and most of them potentially could use AmnioFix® to reduce scarring and inflammation during the primary procedure and reduce the time during reoperations or follow-up surgeries.

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(1)Intellab - Worldwide markets for Emerging Technologies, 2009

Our HydroFix® Vaso Shield sheet is FDA cleared as a vessel protector to protect the major vessels from the anterior spinal column during an anterior spinal procedure. Outside the United States, HydroFix® Spine Shield is CE marked for use for the anterior and posterior spine to provide a barrier for scar tissue attachment (adhesions). This permanent sheet is a physical barrier between two tissue types and could help with the re-access to the surgical site on a revision.

We currently license the PVA-based hydrogel for use in the spine, rotator cuff and as a surgical sheet.

Competition

EpiFix® and AmnioFix® Product lines

Competitive technologies

There are many competitive technologies that are focused on addressing the chronic wound care market. The technologies that we believe we can displace and/or replace are culture skin substitutes and topical growth factors. Although we are reimbursed under the category of “skin substitute,” our amniotic tissue is more than just a skin substitute - it is a membrane that regenerates multiple different types of tissues and is truly a regenerative tissue graft.

Cultured skin substitutes

Cultured skin substitutes were deployed for the treatment of chronic wounds over ten years ago. There are limitations to these products:

- Cell based
- Requires special handling to minimize damage to the tissue
- Requires special shipping and storage -80°C or refrigeration.
- Some require special thawing procedures taking up staff resources
- Limited to only one size creating tremendous waste

Topical Growth Factors and Platelet Rich Plasma (PRP)

There are two approaches to delivering topical growth factors to assist in healing. The first, which has been approved by the FDA, is yeast derived rhPDGF which is delivered in a gel that requires refrigeration. It is only approved for use on neuropathic diabetic foot ulcers. The second approach is platelet rich plasma (“PRP”), which is blood plasma with concentrated platelets. The platelets found in PRP are concentrated and include growth factors, as well as bioactive proteins. Although PRP has been used in many procedures, there continue to be many challenges with PRP usage, including the procedure the patient must go through to get the blood and the time it takes to process the blood. Moreover, the patient’s health will mandate the quality of the PRP. Additionally, the capital requirements for equipment and subsequent disposal costs associated with each procedure can be quite large. A further challenge is ensuring the PRP material stays in the location where placed by the physician.

Amnion and Amniotic Fluid

There are competing companies that are marketing amniotic tissue and fluid as well. To date, all the amniotic fluid on the market is cryopreserved, requiring special storage and precise thawing protocols. Most competitive amnion grafts are cryopreserved single layer amnion grafts. These grafts have the same issue as some of the cultured skin substitutes, with special storage requirements, thaw time, and hard to handle characteristics. Some use chemicals to

fix or crosslink proteins to help with the tissue sterilization and for storage. Crosslinking creates a material that is more durable, but the crosslinking alters the resumption profile of the tissue. If competitors begin to dehydrate and layer their grafts, we believe our strong intellectual property efforts will afford us the right to prevent competitors from selling those products that violate our patents.

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CollaFixTM Products

There are currently a large number of devices on the market used to reinforce surgically repaired soft tissues. These include hardware (screws, pins, disposables) as well as allografts, synthetic products and xenografts (derived from porcine, bovine and equine tissues).

There are several technologies currently on the market or anticipated to enter the market for ligament and tendon repair and/or replacements. Those technologies include collagen matrices, cell-seeded polymer scaffolds, cryopreserved allografts, fibroblast-seeded ligament analogs, and small intestinal submucosa.

These technologies may or may not utilize cross-linking agents, which are FDA-approved and used in the manufacturing of collagen for soft-tissue repair. The current market leader is the Restore Orthobiologic Soft Tissue Implant from DePuy. It utilizes small intestinal submucosa of porcine origin. We believe our collagen fiber-based devices will provide better reinforcement for tendon and ligament repair because they are made of high strength cross-linked collagen fibers and, by mimicking the natural fiber orientation in tendons and ligaments, they provide targeted mechanical properties equivalent to those of tendons and ligaments.

There are a few synthetic products, such as W.L. Gore's GoreTex, 3M Kennedy Ligament Augmentation Device ("LAD"), and Stryker's Meadox Dacron Ligament Augmentation Graft which were developed for use in Anterior Cruciate Ligament (ACL) reconstruction. These were first and second generation soft-tissue repair products and generally produce results that we believe are less satisfactory than those containing soft-tissue constructs, because the materials tend to stretch and become deformed over time.

HydroFix® Products

Spinal orthopedic and neurosurgeons actively seek treatment alternatives and utilize various technologies during different stages of the patient care continuum. Until the recent success of non-fusion technologies, spine implant market manufacturers have focused almost exclusively on refining and improving spinal fusion techniques. Multiple fusion techniques and products are available to patients today.

Regardless of the type of surgery, fusion or TDR, physicians commonly deal with venous injury during anterior spinal revision surgery. Currently, competition for vessel guards for this specific application is limited. W.L. Gore & Associates, Inc. is the dominant manufacturer in this area.

Marketing and Sales

We have assembled a network of independent sales representatives and stocking distributors to sell our MiMedx-labeled products domestically, and we are continuing to assemble a network of stocking distributors for international distribution. We also have a number of private label and OEM relationships, where our tissue is packaged and branded in accordance with the customer's specifications.

Reimbursement

Most of our products are purchased by doctors, hospitals or ambulatory surgery centers that are reimbursed by third-party payers. In the U.S., such payers include governmental programs (e.g., Medicare and Medicaid), private insurance plans, managed care programs and workers' compensation plans. Governmental payment programs have prescribed reimbursement rates for procedures and medical products. Similarly, private third-party payers have carefully negotiated payment levels for procedures and medical products. In addition, in the United States, an increasing percentage of insured individuals are receiving their medical care through managed care programs, which

monitor and may require pre-approval of the services that a member will receive. Private pay possibilities exist as a financing mechanism for purchasing our products as well, but our success substantially depends on adequate levels of third-party reimbursement for our products.

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In those countries outside the U.S. where our products are approved for sale, we expect that sales volumes and prices of our products will be influenced by the availability of reimbursement from governments or third-party payers. If adequate levels of reimbursement from governments or third-party payers outside of the U.S. are not obtained, international sales of our products will be limited. Outside of the U.S., reimbursement systems vary significantly by country. Many foreign markets have government-managed health care systems that govern reimbursement for medical devices and procedures and often require special consideration for reimbursement for a new device.

We are currently working with industry reimbursement consultants to aid in the reimbursement planning for our products. At this time there can be no assurance that reimbursement policies will provide an acceptable return on our products.

Government Regulation

United States

Human Amniotic Tissue

As discussed above, our AmnioFix® and EpiFix® platforms are human tissue, and qualify under Section 361 of the Public Health Service Act as products that do not require premarket review under a drug, device or biological product market application. The FDA believes that all human cells, tissue and cellular and tissue-based products (HCT/Ps) meet the definition of a drug, device or biological product. However, the agency recognizes that human tissue was designed, or evolved, to perform certain functions in the human body with exquisite safety and effectiveness. FDA's regulations set out the criteria an HCT/P must meet in order to be marketed without premarket approval or clearance:

- The HCT/P must be minimally manipulated;
- The HCT/P must be intended for homologous use (defined as the product performing the same basic function in the donor and in the recipient);
- The HCT/P must be not combined with another article; and
- The HCT/P must not have a systemic effect and is not dependent on the metabolism of living cells for its primary function.

When an HCT/P meets all the above criteria, no FDA review for safety and effectiveness under a drug, device, or biological product marketing application is required. However, the processor of the tissue is required to register with the FDA, comply with regulations regarding labeling, donor eligibility, screening and testing, process the tissue in accordance with established Good Tissue Practices, and report any adverse events.

Medical Devices

Our HydroFix® and CollaFixTM product platforms are medical devices subject to regulation by the FDA, under the Federal Food, Drug, and Cosmetic Act and they are also regulated in the European Economic Area by the Medical Device Directive 93/42/EEC. Similar registration/licensing regulations apply in other countries. These regulations govern, among other things, the following activities:

- product design and development;

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- product testing;
- product manufacturing;
- product labeling;
- product storage;
- premarket clearance or approval;
- advertising and promotion;
- product sales and distribution; and
- Medical device reporting/Vigilance reporting.

Each medical device distributed commercially in the U.S. will require either 510(k) clearance or Premarket Approval ("PMA") from the FDA prior to marketing. Devices deemed to pose relatively less risk are placed in either Class I or II which requires the manufacturer to submit a premarket notification requesting clearance for commercial distribution. This is known as 510(k) clearance, which indicates that the device is substantially equivalent to devices already legally on the market. Most Class I devices are considered very low risk and are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or devices deemed not substantially equivalent to a previously 510(k) cleared device or a pre-amendment Class III device for which PMA applications have not been required, are placed in Class III, requiring PMA approval.

Some of our products contain biologic materials and we believe that FDA will regulate our products as medical devices. However, the FDA may determine that some of our products are combination products comprised of a biologic and medical device component. For a combination product, the FDA must determine which center or centers within the FDA will review the products and under what legal authority the products will be reviewed. While we believe our products would likely be regulated under the medical device authorities even if they are deemed "combination products," there can be no assurances that the FDA will agree. In addition, the review of combination products is often more complex and more time consuming than the review of a product under the jurisdiction of only one center within the FDA.

510(k) Clearance Pathway

To obtain 510(k) clearance for our products, we must submit a premarket notification demonstrating that the proposed device is substantially equivalent in intended use and in safety and effectiveness to a previously 510(k) cleared device or a device that was in commercial distribution before May 28, 1976, for which the FDA has not yet called for submission of PMA applications. The FDA's 510(k) clearance pathway usually takes from four to 12 months, but it can take significantly longer for submissions that include clinical data.

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, technological characteristics, performance or labeling requires a new 510(k) clearance or could require a PMA approval. The FDA requires each manufacturer to make this determination in the first instance, but the FDA can review any such decision. If the FDA disagrees with a manufacturer's decision not to seek a new 510(k) clearance, the agency may retroactively require the manufacturer to seek 510(k) clearance or PMA approval. The FDA typically inspects the manufacturer's facilities for compliance with 21 CFR Part 820 Quality System Regulation (QSR) which define the requirements for a quality system. A Quality

System consists of organizational structure, responsibilities, procedures, processes and resources for implementing controls and monitoring to ensure the quality and integrity of the product.

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The FDA also can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or PMA approval is obtained.

PMA Approval Pathway

If 510(k) clearance is unavailable for a product it must follow the PMA approval pathway, which requires proof of the safety and effectiveness of the device to the FDA's satisfaction. The PMA approval pathway is much more costly, lengthy and uncertain. It generally takes from one to three years and can take even longer.

A PMA application must provide extensive preclinical and clinical trial data and also information about the device and its components regarding, among other things, device design, manufacturing and labeling. As mentioned above, in conjunction with a PMA review, the FDA typically will inspect the manufacturer's facilities for compliance with QSR requirements.

Upon submission, the FDA determines if the PMA application is sufficiently complete to permit a substantive review, and, if so, the application is accepted for filing. The FDA then commences an in-depth review of the PMA application, which typically takes one to three years, but may take longer. The review time is often significantly extended as a result of the FDA asking for more information or clarification of information already provided. The FDA also may respond with a "not approvable" determination based on deficiencies in the application and require additional clinical trials that are often expensive and time consuming and can delay approval for months or even years. During the review period, an FDA advisory committee may be convened to review the application and recommend to the FDA whether, or upon what conditions, the device should be approved. Although the FDA is not bound by the advisory panel decision, the panel's recommendation is important to the FDA's overall decision making process.

If the FDA's evaluation of the PMA application is favorable, the FDA typically issues an "approvable letter" requiring the applicant's agreement to specific conditions (e.g., changes in labeling) or specific additional information (e.g., submission of final labeling) in order to secure final approval of the PMA application. Once the approvable letter is satisfied, the FDA will issue a PMA for the approved indications, which can be more limited than those originally sought by the manufacturer. The PMA can include post approval conditions that the FDA believes necessary to ensure the safety and effectiveness of the device including, among other things, restrictions on labeling, promotion, sale and distribution. Failure to comply with the conditions of approval can result in material adverse enforcement action, including the loss or withdrawal of the approval. Even after approval of a PMA, a new PMA or PMA supplement is required in the event of a modification to the device, its labeling or its manufacturing process.

Clinical Trials

A clinical trial is generally required to support a PMA application and is sometimes required for a premarket notification. Such trials generally require submission of an application for an Investigational Device Exemption, or IDE. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE must be approved in advance by the FDA for a specified number of patients (unless the product is deemed a non-significant risk device eligible for more abbreviated IDE requirements). Clinical trials are subject to extensive monitoring, record keeping and reporting requirements. Clinical trials may begin once the IDE application is approved by the FDA and the appropriate institutional review boards, or IRBs, at the clinical trial sites, and must comply with FDA regulations. To conduct a clinical trial, we also are required to obtain the patients' informed consent that complies with both FDA requirements and state and federal privacy and human subject protection regulations. We, the FDA or the IRB could suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits. Even if a trial is completed, the results of clinical testing may not adequately demonstrate the safety and efficacy of the device or may otherwise not be sufficient to obtain FDA approval to market the product in

the U.S.

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Post market

After a device is placed on the market, numerous regulatory requirements apply. These include: the Quality System Regulation, which requires manufacturers to follow elaborate design, testing, control, documentation and other quality assurance procedures during the manufacturing process; labeling regulations; the FDA's general prohibition against promoting products for unapproved or "off-label" uses; and the Medical Device Reporting regulation, which requires that manufacturers report to the FDA if their device caused or contributed, or may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to recur. Class II devices also can have special controls such as performance standards, post market surveillance, patient registries, and FDA guidelines that do not apply to Class I devices.

The manufacturer is subject to inspection and marketing surveillance by the FDA to determine our compliance with regulatory requirements. If the FDA finds that we have failed to comply, it can institute a wide variety of enforcement actions, ranging from a warning letter to more severe sanctions such as:

- fines, injunctions, and civil penalties;
- recall or seizure of our products;
- operating restrictions, partial suspension or total shutdown of production;
- refusing our requests for 510(k) clearance or PMA approval of new products;
- withdrawing 510(k) clearance or PMA approvals already granted; and
- criminal prosecution.

The FDA also has the authority to require repair, replacement or refund of the cost of any medical device that we have manufactured or distributed.

International

International sales of the Company's products are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval, and the requirements may differ. In addition, the export of certain MiMedx Group products that have not yet been cleared or approved for domestic distribution may be subject to FDA export restrictions. There can be no assurance that we will receive on a timely basis, if at all, any foreign government or United States export approvals necessary for the marketing of our products abroad.

The primary regulatory environment in Europe is that of the European Union, which consists of twenty-seven countries, encompassing most of the major countries in Europe. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. The European Union has adopted numerous directives and standards regulating design, manufacture, clinical trials, labeling, and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear a CE Mark and can be commercially distributed throughout Europe. For tissue products, the Company must submit for approval and clearance with each individual country, supporting the compliance of the product with the country's directives and/or standards. Once approved, the tissue product can be distributed within that particular country. The method of assessing conformity varies depending on the class of the product, but normally involves a combination of self-assessment by the manufacturer and a third party assessment by a "Notified Body." This third party

assessment may consist of an audit of the manufacturer's quality system and specific testing of the manufacturer's product. A successful assessment by a Notified Body resident in one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Economic Area EEA.

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Export of Uncleared or Unapproved Devices

Export of devices eligible for the 510(k) clearance process, but not yet cleared to market, is permitted without FDA approval, provided that certain requirements are met. Unapproved devices subject to the PMA process can be exported to any country without FDA approval provided that, among other things, they are not contrary to the laws of the country to which they are intended for import, they are manufactured in substantial compliance with the Quality System Regulations, and they have been granted valid marketing authorization by any member country of the European Union, Australia, Canada, Israel, Japan, New Zealand, Switzerland or South Africa. If these conditions are not met, FDA approval must be obtained, among other things, by demonstrating to the FDA that the product is approved for import into the country to which it is to be exported and, in some cases, by providing safety data for the device. There can be no assurance that the FDA will grant export approval when necessary or that countries to which the device is to be exported will approve the device for import. Our failure to obtain necessary FDA export authorization and/or import approval could have a material adverse effect on our business, financial condition and results of operation.

Regulatory Status of our Products

The clearances and CE markings we have received for our products are discussed under the description of the respective technologies under the heading “Our Technology and Products.”

Licenses

License Agreement between SpineMedica and SaluMedica, LLC

In August 2005 we entered into an exclusive, perpetual, worldwide, non-terminable, royalty-free, transferable license of certain patents and patent application rights held by SaluMedica, LLC that relate to a PVA-based hydrogel. SpineMedica has the right to manufacture, market, use and sell medical devices and products incorporating the claimed technology for all neurological and orthopedic uses related to the human spine, including muscular and skeletal uses. Some of the licensed patents and patent application rights are owned by SaluMedica, LLC and at least one of these patent and patent application rights is licensed by SaluMedica, LLC from Georgia Tech Research Corporation. In connection with this license agreement, SpineMedica also acquired certain of SaluMedica, LLC’s assets, including manufacturing and testing equipment and office equipment, and obtained a license to use the trademarks “SaluMedica™” and “Salubria® biomaterial.”

License Agreement between SaluMedica, LLC and Georgia Tech Research Corporation

Some of the patents and patent application rights licensed to SpineMedica by SaluMedica, LLC are licensed to SaluMedica, LLC from Georgia Tech Research Corporation. SaluMedica, LLC and Georgia Tech Research Corporation have agreed that in the event the license agreement between them is terminated for any reason (other than the expiration of the patents), Georgia Tech Research Corporation will license the technology to SpineMedica for uses related to the human spine on substantially the same terms as granted to SaluMedica, LLC without further payment.

Rotator Cuff License with SaluMedica, LLC

MiMedx has a Technology License Agreement, as amended by a First Amendment to Technology License Agreement, as well as a related Trademark License Agreement, all dated August 3, 2007, (collectively, the “Rotator Cuff License”) that provided MiMedx with the exclusive, fully-paid, worldwide, royalty-free, irrevocable and non-terminable (except as provided in the Rotator Cuff License), and sublicensable rights to develop, use, manufacture, market, and sell Salubria® biomaterial or similar PVA-based hydrogels for all neurological and

orthopedic uses (including muscular and skeletal uses) related to the rotator cuff and the hand (excluding the wrist), but excluding the product SaluBridge (which is made from Salubria® biomaterial and is currently cleared for use by the FDA) (the "Licensed Rotator Cuff IP"). SaluMedica, LLC's rights in the Licensed Rotator Cuff IP derive from and are subject to one or more licenses from Georgia Tech Research Corporation and, consequently, the Rotator Cuff License is subject to those same licenses. This license was amended in October 2009 to relinquish the license for uses related to the hand but we kept the rotator cuff license.

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Surgical Sheet License with SaluMedica, LLC

On March 31, 2008, we entered into an exclusive world-wide license with SaluMedica, LLC for a PVA-based hydrogel biomaterial for applications as a surgical sheet. The license covers both internal and external applications. In exchange for the exclusive, worldwide, perpetual license to develop, manufacture, and sell the "surgical sheet" technology for application anywhere in the body, we issued SaluMedica, LLC 400,000 shares of restricted Common Stock. In addition, SaluMedica, LLC is eligible to receive up to an aggregate additional 600,000 shares of restricted Common Stock if certain sales and revenue milestones are achieved not later than June 30, 2013. On December 31, 2009, we completed the sale of our first commercial product, the HydroFix® Vaso Shield, and met the first milestone under this agreement. As a result we issued 100,000 shares of Common Stock to the licensor valued at $71,000.

Intellectual Property

Our intellectual property includes licensed patents, owned and licensed patent applications and patents pending, proprietary manufacturing processes and trade secrets, brands, trademarks and trade names associated with our technology. Furthermore, we require employees, consultants and advisors to sign Proprietary Information and Inventions Agreements as well as Nondisclosure Agreements that assign to us and protect the intellectual property existing and generated from their work and that we may use and own exclusively.

The pending and provisional patent applications may not issue into patents, as is true with any provisional or patent application.

Worldwide, the MiMedx platform technologies are protected with ten patents and over 50 patent applications, as well as proprietary manufacturing processes and trade secrets.

Improvements to Technology

Any improvements to Salubria® developed by SaluMedica, LLC during the life of the licensed patents are included as part of the license from SaluMedica, LLC. The Company will own all improvements to Salubria® that we develop. However, we will license these improvements to SaluMedica, LLC for no additional consideration, provided that the use of these improvements must be unrelated to all neurological and orthopedic uses, including muscular and skeletal uses, related to the human spine.

Trademarks & Trade Names

We own trademark and trade name registration of the mark Paradís Vaso ShieldTM and license the SaluMedica™ and Salubria® trademarks. We also own the trade name registration of the trademarks of MiMedx®, EpiFix®, AmnioFix®, HydroFix® and Purion®.

Manufacturing

MiMedx Group performs research and early stage product and process development activities and operates a pilot production facility for its proprietary CollaFixTM cross-linked collagen products in its Kennesaw, Georgia, facility. In the future, we may contract with third parties to perform certain manufacturing or assembly of the products that are developed and enter into strategic relationships for sales and marketing of products that we develop.

Our Kennesaw, Georgia, facility is also our corporate headquarters, which houses our general management, sales, marketing, product development, quality and regulatory functions as well as the consolidation of our manufacturing operations for EpiFix®, AmnioFix®, HydroFix® and CollaFixTM.

We are subject to the FDA's quality system regulations, state regulations, and regulations promulgated by the European Union. We are FDA registered, CE marked and ISO certified. Our facilities are subject to periodic unannounced inspections by regulatory authorities, and may undergo compliance inspections conducted by the FDA and corresponding state and foreign agencies.

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Suppliers

We have identified reliable sources and suppliers of collagen, source materials of NDGA, which we believe will provide a product in compliance with FDA guidelines. We engage in the manufacture of our own hydrogel products and accessibility to critical raw materials for the PVA-based biomaterial products is not inhibited by supply or market constraints.

We have a comprehensive network of hospitals who participate in our placenta donation program. We have a dedicated staff who work at these hospitals, collecting donated placentas from mothers who consent to donation, undergoing caesarian section births. In addition, we have entered into agreements with certain third party companies who also collect placenta donations in other hospitals. We believe that we have ensured an adequate supply of tissue to meet anticipated demand.

Research and Development

Our research and development group has extensive experience in developing products related to our field of interest, and works with our Medical Advisory Board to design products that are intended to improve patient outcomes, simplify techniques, shorten procedures, reduce hospitalization and rehabilitation times and, as a result, reduce costs. To support development, we have contracts with outside labs who aid us in our research and development process. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” at Item 7 below for information regarding expenditures for research and development in each of the last two fiscal years.

Environmental Matters

The Company’s tissue preservation activities generate some chemical and biomedical wastes, consisting primarily of diluted alcohols and acids, human and animal pathological and biological wastes, including human and animal tissue and body fluids removed during laboratory procedures. The chemical and biomedical wastes generated by the Company are placed in appropriately constructed and labeled containers and are segregated from other wastes generated by the Company. The Company contracts with third parties for transport, treatment, and disposal of waste. The Company strives to remain compliant with applicable laws and regulations promulgated by the Resource Conservation and Recovery Act, the U. S. Environmental Protection agency and the Georgia Department of Natural Resources, Environmental Protection /division.

Employees

As of December 31, 2011, we had 52 employees, of whom 47 are full-time and five are part-time employees. We consider our relationships with our employees to be satisfactory. None of our employees is covered by a collective bargaining agreement.

Litigation

None outside the ordinary course of business.

Available Information

Our website address is www.mimedx.com. We make available on this website under “Investor Relations — SEC Filings,” free of charge, our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (“SEC”). In addition, we post filings of Forms 3, 4, and

5 filed by our directors, executive officers and ten percent or more shareholders. We also make available on this website under the heading “Investor Relations — Corporate Governance” our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee Charters as well as our Code of Business Conduct and Ethics.

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The reference to our website does not constitute incorporation by reference of any information contained at that site.

Item 1A. Risk Factors

Risks Related to Our Business and Industry

We are a high-risk startup venture.

With the commercialization of our first products, we have transitioned from being a development company to an operating company. Nonetheless, most of our products are still in the early stages of development and deployment, and we have limited operating history. We do not currently have any material assets, other than cash, certain laboratory equipment, and certain intellectual property rights. Our business and prospects must be evaluated in light of the expenses, delays, uncertainties and complications typically encountered by businesses in our stage of development, many of which may be beyond our control. These include, but are not limited to, lack of sufficient capital, unanticipated problems, delays or expenses relating to product development, governmental approvals, and licensing and marketing activities, competition, technological changes and uncertain market acceptance. In addition, if we are unable to manage growth effectively, our operating results could be materially and adversely affected. We must overcome these and other business risks to be successful. Our efforts may not be successful. We may never be profitable. Therefore, investors could lose their entire investment.

Many of our planned products are in the early stage of product development.

Many of the possible products we have rights to have had only limited research in the fields of use we currently intend to commercialize. Our product candidates will require testing and regulatory clearances or approvals. Accordingly, most of the products we are developing are not yet ready for sale and may never be ready for sale. The successful development of any products is subject to the risks of failure inherent in product development. These risks include the possibilities that any or all of these proposed products or procedures are found to be ineffective or toxic, or otherwise fail to receive necessary regulatory clearances or approvals; that the proposed products or procedures are uneconomical to market or do not achieve broad market acceptance; that third parties hold proprietary rights that preclude us from marketing them; or third parties market a superior or equivalent product. We are unable to predict whether our research and development activities will result in any additional commercially viable products or procedures. Furthermore, due to the extended testing and regulatory review process required before marketing clearances or approvals can be obtained, the time frames for commercialization of any products or procedures are long and uncertain.

Continuing disruptions in the overall economy and the credit and financial markets may adversely impact our ability to raise necessary additional capital.

The capital and credit markets continue to be very volatile as a result of adverse conditions that have caused the failure and near failure of a number of large financial services companies. If the capital and credit markets continue to experience volatility and the availability of funds remains limited, it is possible that our ability to access the capital and credit markets may be limited or nonexistent because of these or other factors, and we require additional capital in the near future in order to continue operations.

We will need additional financing to meet our future capital requirements.

We will require significant additional funds, either through additional equity or debt financings or collaborative agreements or from other sources to engage in research and development activities with respect to our potential products and to hire the personnel necessary to successfully manage the commercialization of our products. We

believe that our current cash and cash equivalents will be sufficient to meet our projected operating requirements for the next twelve months. However, obtaining the required regulatory approvals and clearances and the planned expansion of our business will be expensive and time-consuming and we may in the future seek funds from public and private stock or debt offerings, borrowings under lines of credit or other sources. Our capital requirements will depend on many factors, including:

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Ÿ the revenue generated by sales of our products;

Ÿ the costs associated with expanding our sales and marketing efforts, including efforts to hire independent agents and sales representatives;

Ÿ the expenses we incur in developing and commercializing our products, including the cost of obtaining and maintaining FDA or other regulatory clearances and approvals for our HydroFix® and CollaFixTM products; and

Ÿ general and administrative expenses.

As a result of these factors, we will raise additional funds in the future and such funds may not be available on favorable terms, or at all. Furthermore, if we issue equity or debt securities to raise additional funds, our existing shareholders may experience dilution and the new equity or debt securities we issue may have rights, preferences and privileges senior to those of our existing shareholders. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to our products or proprietary technologies, or grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, obtain the required regulatory clearances or approvals, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements. Any of these events could adversely affect our ability to achieve our development and commercialization goals, which could have a material and adverse effect on our business, results of operations and financial condition.

We have a limited operating history. Further, we have incurred losses since inception. The actual extent of our future losses and the timing of profitability are highly uncertain, and we may never achieve profitable operations. The principal causes of our losses are likely to be primarily attributable to personnel costs, working capital costs, research and development costs, brand development costs and marketing and promotion costs. We may never achieve profitability.

We are in a highly competitive industry and face competition from large, well-established medical device manufacturers as well as new market entrants.

Competition from other medical device companies and from research and academic institutions is intense, expected to increase, subject to rapid change, and significantly affected by new product introductions and other market activities of industry participants. In addition to competing with universities and other research institutions in the development of products, technologies and processes, we compete with other companies in acquiring rights to products or technologies from those institutions. There can be no assurance that we can develop products that are more effective or achieve greater market acceptance than competitive products, or that our competitors will not succeed in developing or acquiring products and technologies that are more effective than those being developed by us, that would render our products and technologies less competitive or obsolete.

Our competitors enjoy several competitive advantages over us, including some or all of the following:

- products which have been approved by regulatory authorities for use in the United States and/or Europe and which are supported by long-term clinical data;
- significantly greater name recognition;
- established relations with surgeons, hospitals, other healthcare providers and third party payors;

- large and established distribution networks in the United States and/or in international markets;
- greater experience in obtaining and maintaining regulatory approvals and/or clearances from the United States Food and Drug Administration and other regulatory agencies;
- more expansive portfolios of intellectual property rights; and
- greater financial, managerial and other resources for products research and development, sales and marketing efforts and protecting and enforcing intellectual property rights.

Our competitors' products will compete directly with our products. In addition, our competitors as well as new market entrants may develop or acquire new treatments, products or procedures that will compete directly or indirectly with our products. The presence of this competition in our market may lead to pricing pressure which would make it more difficult to sell our products at a price that will make us profitable or prevent us from selling our products at all. Our failure to compete effectively would have a material and adverse effect on our business, results of operations and financial condition.

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Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain and may be inadequate, which would have a material and adverse effect on us.

Our success depends significantly on our ability to protect our proprietary rights to the technologies used in our products. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology, including our licensed technology. These legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. For example, our pending United States and foreign patent applications (and those we have or will have licenses to) may not issue as patents in a form that will be advantageous to us or may issue and be subsequently successfully challenged by others and invalidated. In addition, our pending patent applications include claims to material aspects of our products and procedures that are not currently protected by issued patents. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Competitors may be able to design around our patents or develop products that provide outcomes that are comparable or even superior to ours. Although we have taken steps to protect our intellectual property and proprietary technology, including entering into confidentiality agreements and intellectual property assignment agreements with some of our officers, employees, consultants and advisors, such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Furthermore, the laws of foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States.

In the event a competitor infringes upon our licensed or pending patent or other intellectual property rights, enforcing those rights may be costly, uncertain, difficult and time consuming. Even if successful, litigation to enforce our intellectual property rights or to defend our patents against challenge could be expensive and time consuming and could divert our management's attention. We may not have sufficient resources to enforce our intellectual property rights or to defend our patents rights against a challenge. The failure to obtain patents and/or protect our intellectual property rights could have a material and adverse effect on our business, results of operations, and financial condition.

We may become subject to claims of infringement or misappropriation of the intellectual property rights of others, which could prohibit us from developing our products, require us to obtain licenses from third parties or to develop non-infringing alternatives, and subject us to substantial monetary damages.

Third parties could, in the future, assert infringement or misappropriation claims against us with respect to products we develop. Whether a product infringes a patent or misappropriates other intellectual property involves complex legal and factual issues, the determination of which is often uncertain. Therefore, we cannot be certain that we have not infringed the intellectual property rights of others. Our potential competitors may assert that some aspect of our product infringes their patents. Because patent applications may take years to issue, there also may be applications now pending of which we are unaware that may later result in issued patents that our products infringe. There also may be existing patents or pending patent applications of which we are unaware that our products may inadvertently infringe.

Any infringement or misappropriation claim could cause us to incur significant costs, place significant strain on our financial resources, divert management's attention from our business and harm our reputation. If the relevant patents in such claim were upheld as valid and enforceable and we were found to infringe, we could be prohibited from selling any product that is found to infringe unless we could obtain licenses to use the technology covered by the patent or are able to design around the patent. We may be unable to obtain such a license on terms acceptable to us, if at all, and we may not be able to redesign our products to avoid infringement. A court could also order us to pay compensatory damages for such infringement, plus prejudgment interest and could, in addition, treble the compensatory damages and award attorney fees. These damages could be substantial and could harm our reputation, business, financial condition and operating results. A court also could enter orders that temporarily, preliminarily or permanently enjoin

us and our customers from making, using, or selling products, and could enter an order mandating that we undertake certain remedial activities. Depending on the nature of the relief ordered by the court, we could become liable for additional damages to third parties.

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Our patents and licenses may be subject to challenge on validity grounds, and our patent applications may be rejected.

We rely on our patents, patent applications, licenses and other intellectual property rights to give us a competitive advantage. Whether a patent is valid, or whether a patent application should be granted, is a complex matter of science and law, and therefore we cannot be certain that, if challenged, our patents, patent applications and/or other intellectual property rights would be upheld. If one or more of those patents, patent applications, licenses and other intellectual property rights are invalidated, rejected or found unenforceable, that could reduce or eliminate any competitive advantage we might otherwise have had.

The prosecution and enforcement of patents licensed to us by third parties are not within our control, and without these technologies, our product may not be successful and our business would be harmed if the patents were infringed or misappropriated without action by such third parties.

We have obtained licenses from third parties for patents and patent application rights related to the products we are developing, allowing us to use intellectual property rights owned by or licensed to these third parties. We do not control the maintenance, prosecution, enforcement or strategy for many of these patents or patent application rights and as such are dependent in part on the owners of the intellectual property rights to maintain their viability. Without access to these technologies or suitable design-around or alternative technology options, our ability to conduct our business could be impaired significantly.

Our NDGA License Agreement could be terminated.

Under our license agreement with Shriners' Hospitals for Children and University of South Florida Research Foundation dated January 29, 2007, it is possible for the licensor to terminate the agreement if we breach the license agreement and all of our cure rights are exhausted. If our license agreement were to be terminated, it would have a negative impact on our business.

We may be subject to damages resulting from claims that we, our employees, or our independent contractors have wrongfully used or disclosed alleged trade secrets of others.

Some of our employees were previously employed at other medical device companies. We may also hire additional employees who are currently employed at other medical device companies, including our competitors. Additionally, consultants or other independent agents with which we may contract may be or have been in a contractual arrangement with one or more of our competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or independent contractors have used or disclosed any party's trade secrets or other proprietary information. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail to defend such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key personnel or their work product could hamper or prevent our ability to market existing or new products, which could severely harm our business.

SaluMedica, LLC may license the PVA-based hydrogel, the material used to make MiMedx's HydroFix® products and other products we are developing, and its trademark to third parties for use in applications unrelated to the spine, rotator cuff, or surgical sheet applications. This may expose us to adverse publicity if these uses are not proven safe and effective.

Our licenses with SaluMedica, LLC allows us to use technology and/or know-how related to the material used to manufacture applications related to the spine, rotator cuff and surgical sheet, and allows us to use the Salubria® biomaterial trademark. SaluMedica, LLC may license the PVA-based hydrogel and rights related to the Salubria®

biomaterial trademark to third parties for applications not related to the spine, rotator cuff, or surgical sheet. If the use of Salubria® biomaterial or the PVA-based hydrogel by these third parties results in product liability claims or has other adverse effects in patients, surgeons and patients may associate these claims and effects with our products, even if our products are nevertheless proven safe and effective. If Salubria® biomaterial experiences adverse publicity or is not proven safe and effective in other applications, sales of our products could be adversely affected.

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We depend on key personnel.

Our success will depend, in part, upon our ability to attract and retain additional skilled personnel, which will require substantial additional funds. There can be no assurance that we will be able to find and attract additional qualified employees or retain any such personnel. Our inability to hire qualified personnel, the loss of services of our key personnel, or the loss of services of executive officers or key employees that that may be hired in the future may have a material and adverse effect on our business.

Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside of our control.

We are subject to the following factors, among others, that may negatively affect our operating results:

- the announcement or introduction of new products by our competitors;
- our ability to upgrade and develop our systems and infrastructure to accommodate growth;
- our ability to attract and retain key personnel in a timely and cost effective manner;
- technical difficulties;
- the amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure;
- regulation by federal, state or local governments; and
- general economic conditions as well as economic conditions specific to the healthcare industry.

As a result of our limited operating history, limited resources, and the nature of the markets in which we compete, it is extremely difficult for us to forecast accurately. We have based our current and future expense levels largely on our investment plans and estimates of future events although certain of our expense levels are, to a large extent, fixed. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenue relative to our planned expenditures would have an immediate adverse effect on our business, results of operations and financial condition. Further, as a strategic response to changes in the competitive environment, the Company may from time to time make certain pricing, service or marketing decisions that could have a material and adverse effect on our business, results of operations and financial condition. Due to the foregoing factors, our revenue and operating results are and will remain difficult to forecast.

The failure of government health administrators and private health insurers to reimburse patients for costs of services incorporating our current or potential products would materially and adversely affect our business.

Our success depends, in part, on the extent to which reimbursement for the costs of products to users will be available from government health administration authorities, private health insurers and other organizations. Significant uncertainty usually exists as to the reimbursement status of newly approved healthcare products. Adequate third party insurance coverage may be unavailable for us, our sublicensees or partners to establish and maintain price levels sufficient for realization of an appropriate return on investment. Government and other third-party payers attempt to contain healthcare costs by limiting both coverage and the level of reimbursement of new products. Therefore, we cannot be certain that our products or the procedures performed with them will be covered or adequately reimbursed and thus we may be unable to sell our products profitably if third-party payors deny coverage or reduce their levels of

payment below that which we project, or if our production costs increase at a greater rate than payment levels. If government and other third party payers do not provide adequate coverage and reimbursement for uses of the products incorporating our technology, the market's acceptance of our products could be adversely affected.

Disruption of our manufacturing could adversely affect our business, financial condition and results of operations.

Our results of operations are dependent upon the continued operation of our manufacturing facilities. The operation of biomedical manufacturing plants involves many risks. Such risks include the risks of breakdown, failure or substandard performance of equipment, the occurrence of natural and other disasters, and the need to comply with the requirements of directives from government agencies, including the FDA. The occurrence of material operational problems could have a material adverse effect on our business, financial condition, and results of operations during the period of such operational difficulties.

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We may not be successful in commercializing all of our technologies.

We have had only limited sales of our HydroFix® products. We have invested substantial time and resources in developing various additional products using our HydroFix® and CollaFixTM technologies. Further commercialization of these technologies will require additional development, clinical evaluation, regulatory clearance or approval, significant marketing efforts and substantial additional investment before they can provide us with any revenue. Despite our efforts, any such products may not become commercially successful products for a number of reasons, including:

- we may not be able to obtain regulatory clearance or approvals for such products, or the approved indication may be narrower than we seek;
- such products may not prove to be safe and effective in preclinical or clinical trials;
- physicians or hospitals may not receive any reimbursement from third party payors, or the level of reimbursement may be insufficient to support widespread adoption of such products;
- we may experience delays in our development programs;
- any products that are approved may not be accepted in the marketplace by physicians or patients;
- we may not be able to manufacture any such products in commercial quantities or at an acceptable cost; and
- rapid technological change may make such products obsolete.

We face the risk of product liability claims or recalls and may not be able to obtain or maintain adequate product liability insurance.

Our business exposes us to the risk of product liability claims that are inherent in the testing, manufacturing and marketing of medical devices, including those that may arise from the misuse or malfunction of, or design flaws in, our products. We may be subject to such claims if our products cause, or appear to have caused, an injury. Claims may be made by patients, healthcare providers or others selling our products. Defending a lawsuit, regardless of merit, could be costly, divert management attention and result in adverse publicity, which could result in the withdrawal of, or reduced acceptance of, our products in the market.

Although we have product liability insurance that we believe is adequate, this insurance is subject to deductibles and coverage limitations and we may not be able to maintain this insurance. If we are unable to maintain product liability insurance at an acceptable cost or on acceptable terms with adequate coverage or otherwise protect ourselves against potential product liability claims, we could be exposed to significant liabilities, which may harm our business. A product liability claim or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could result in significant costs and significant harm to our business.

If we are unable to sell, market and distribute our products, our business may be harmed.

To achieve commercial success for our products, we must develop a sales and marketing force, or enter into arrangements with others to market and sell our products. In addition to being expensive, developing such a sales force is time consuming, and could delay or limit the success of any product launch. We may not be able to develop this capacity on a timely basis or at all. Qualified direct sales personnel with experience in the medical device market are in high demand, and there is no assurance that we will be able to hire or retain an effective direct sales team.

Similarly, qualified independent medical device representatives both within and outside the United States are in high demand, and we may not be able to build an effective network for the distribution of our product through such representatives. We have no assurance that we will be able to enter into contracts with representatives on terms acceptable to us, or if we do, we may be subject to a number of risks, including:

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- We may be required to relinquish important rights to our products;
- We may not be able to control the amount and timing of resources that our distributors may devote to the commercialization of our products;
- Our distributors may experience financial difficulties; and
- Business combinations or significant changes in a distributor's business strategy may also adversely affect a distributor's willingness or ability to complete its obligations under any arrangement.

Failure to market and distribute products to our customers in a timely and cost effective manner would cause our potential sales to decrease and our margins to fall.

Off-label promotion of our products could result in substantial penalties.

We are only permitted to promote our products in the U.S. for the uses indicated on the respective label as cleared by the FDA. The U.S. Attorneys' offices and other regulators, in addition to the FDA, have recently focused substantial attention on off-label promotional activities and have initiated civil and criminal investigations related to such practices. If it is determined by these or other regulators that we have promoted our products for off-label use, we could be subject to fines, legal proceedings, injunctions or other penalties.

To be commercially successful, we must convince physicians that our products are safe and effective alternatives to existing surgical treatments and that our products should be used in their procedures.

We believe physicians may not widely adopt our products unless they determine, based on experience, clinical data and published peer reviewed journal articles, that the use of our products in a particular procedure is a favorable alternative to conventional methods. Physicians may be slow to change their medical treatment practices for the following reasons, among others:

- their lack of experience with prior procedures in the field using our products;
- lack of evidence supporting additional patient benefits and our products over conventional methods;
- perceived liability risks generally associated with the use of new products and procedures;
- limited availability of reimbursement from third party payors; and
- the time that must be dedicated to training.

In addition, we believe recommendations for and support of our products by influential surgeons are essential for market acceptance and adoption. If we do not receive this support or if we are unable to demonstrate favorable long-term clinical data, surgeons and hospitals may not use our products which would significantly reduce our ability to achieve expected revenue and would prevent us from becoming profitable.

Any failure in our efforts to train surgeons could significantly reduce the market acceptance of our products.

There will be a learning process involved for physicians to become proficient in the use of our products. It will be critical to the success of our commercialization efforts to train a sufficient number of surgeons and to provide them with adequate instruction in the use of our products. This training process may take longer than expected and may

therefore affect our ability to generate sales. Convincing surgeons to dedicate the time and energy necessary for adequate training is challenging and we may not be successful in these efforts. If physicians are not properly trained, they may misuse or ineffectively use our products. This may result in unsatisfactory patient outcomes, patient injury, negative publicity, or lawsuits against us, any of which could have an adverse effect on our business.

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For some of our products, we depend on a single or a limited number of third-party suppliers, and the loss of these third-party suppliers or their inability to supply us with adequate raw materials could adversely affect our business.

We rely on a limited number of third-party suppliers for the raw materials required for the production of our HydroFix® implant products. Furthermore, in some cases we rely on a single supplier. Our dependence on a limited number of third-party suppliers or on a single supplier, and the challenges we may face in obtaining adequate supplies of raw materials, involve several risks, including limited control over pricing, availability, quality, and delivery schedules. We cannot be certain that our current suppliers will continue to provide us with the quantities of these raw materials that we require or satisfy our anticipated specifications and quality requirements. Any supply interruption in limited or sole sourced raw materials could materially harm our ability to manufacture our products until a new source of supply, if any, could be identified and qualified. Although we believe there are other suppliers of these raw materials, we may be unable to find a sufficient alternative supply channel in a reasonable time or on commercially reasonable terms. Any performance failure on the part of our suppliers could delay the development and commercialization of our products, including limiting supplies necessary for clinical trials and regulatory approvals, or interrupt production of the existing products that are already marketed, which would have a material adverse effect on our business.

We also expect to use collagen, a protein obtained from animal source tissue, as another significant material required to produce some of our anticipated products. We may not be able to obtain adequate supplies of animal source tissue, or to obtain this tissue from animal herds that we believe do not involve pathogen contamination risks, to meet our future needs or on a cost-effective basis. Any significant supply interruption could adversely affect the production of our products and delay our product development or clinical trial programs. These delays would have an adverse effect on our business.

For our amniotic membrane products, we depend on the availability of sufficient quantities of placental tissue from human donors, and any disruption in supply could adversely affect our business.

The success of our amniotic membrane products depends upon, among other factors, the availability of sufficient quantities of placental tissue from human donors. If the supply of donated human tissue is materially reduced, this would restrict our growth and could have a material adverse impact on our revenues, financial condition, profitability, and cash flows.

We will need to increase the size of our organization, and we may be unable to manage rapid growth effectively.

Our failure to manage growth effectively could have a material and adverse effect on our business, results of operations and financial condition. We anticipate that a period of significant expansion will be required to address possible other acquisitions of business, products, or rights, and potential internal growth to handle licensing and research activities. This expansion will place a significant strain on management, operational and financial resources. To manage the expected growth of our operations and personnel, we must both modify our existing operational and financial systems, procedures and controls and implement new systems, procedures and controls. We must also expand our finance, administrative, and operations staff. Our current personnel, systems, procedures and controls may not adequately support our future operations. Management may be unable to hire, train, retain, motivate and manage necessary personnel or to identify, manage and exploit existing and potential strategic relationships and market opportunities.

Our business could be materially and adversely impacted by risks inherent in international markets.

We expect a significant percentage of our revenue to be from sales to customers outside the U.S. International sales subject us to inherent risks related to changes in the economic, political, legal and business environments in the

foreign countries in which we do business, including the following:

- Ÿ Fluctuations in currency exchange rates;
- Ÿ Regulatory, product approval and reimbursement requirements;
- Ÿ Tariffs and other trade barriers;

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- Greater difficulty in accounts receivable collection and longer collection periods;
- Difficulties and costs of managing foreign distributors;
- Reduced protection for intellectual property rights in some countries;
- Burdens of complying with a wide variety of foreign laws;
- The impact of recessions in economies outside the U.S.; and
- Political and economic instability
- U.S. Export regulatory restrictions

If we fail to successfully market and sell our products in international markets, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Recent and future acquisitions may cause integration problems, disrupt our business and strain our resources.

In early 2011, we made a strategic business acquisition, and may continue with such acquisitions in the future. Our success will depend, to a certain extent, on the future performance of these acquired business entities. These acquisitions, either individually or as a whole, could divert management attention from other business concerns and expose us to unforeseen liabilities or risks associated with entering new markets and integrating these new entities. Further, the integration of these entities may cause us to lose key employees or key customers. Integrating newly acquired organizations and technologies could be expensive and time consuming and may strain our resources. Consequently, we may not be successful in integrating these acquired businesses or technologies and may not achieve anticipated revenue and cost benefits.

Risks Related to Regulatory Approval of Our Products and Other Government Regulations

Government regulation of our business is extensive and obtaining and maintaining the necessary regulatory approvals is uncertain, expensive and time-consuming.

The process of obtaining regulatory clearances or approvals to market a medical device from the FDA, or similar regulatory authorities outside of the United States is costly and time consuming, and there can be no assurance that such clearances or approvals will be granted on a timely basis, or at all. The FDA's 510(k) clearance process generally takes 30 days to six months from submission, depending on whether a Special or traditional 510(k) premarket notification has been submitted, but can take significantly longer. An application for premarket approval, or PMA, must be submitted to the FDA if the device cannot be cleared through the 510(k) clearance process and is not exempt from premarket review by the FDA. The PMA process almost always requires one or more clinical trials and can take one to three years from the date of filing, or longer. In some cases, the FDA has indicated that it will require clinical data as part of the 510(k) process.

There is no certainty that any of our products will be cleared by the FDA by means of either a 510(k) notice or a PMA application. Even if the FDA permits us to use the 510(k) clearance process, we cannot assure you that the FDA will not require either supporting data from laboratory tests or studies that we have not conducted, or substantial supporting clinical data. If we are unable to use the 510(k) clearance process for any of our products, are required to provide clinical data or laboratory data that we do not possess to support our 510(k) premarket notifications for any of these products, or otherwise experience delays in obtaining or fail to obtain regulatory clearances, the

commercialization of such product will be delayed or prevented, which will adversely affect our ability to generate revenue. It also may result in the loss of potential competitive advantages that we might otherwise attain by bringing our products to market earlier than our competitors. Any of these contingencies could adversely affect our business.

Even if regulatory clearance is obtained, a marketed product is subject to continual review, and later discovery of previously unidentified problems or failure to comply with the applicable regulatory requirements may result in restrictions on a product's marketing, recalls, or withdrawal of the product from the market as well as possible civil or criminal sanctions.

It is likely that the FDA's regulation of both our tissue products and our medical devices will continue to evolve in the future. Complying with any such new regulatory requirements may entail significant time delays and expense, which could have a material adverse effect on the Company.

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We expect to be required to conduct clinical trials for some of our products. These clinical trials may proceed more slowly than anticipated, and we cannot be certain that the results of these clinical trials will demonstrate that our products are safe and effective for human use.

In order to commercialize some of our products, we may be required to submit a PMA, which will require us to conduct clinical trials. Even if we seek FDA clearance of one our products through the 510(k) process, the FDA may require us to conduct a clinical trial in support of our 510(k). We will receive approval from the FDA to commercialize products requiring a clinical trial only if we can demonstrate to the satisfaction of the FDA, in well-designed and properly conducted clinical trials, that our product candidates are safe and effective and otherwise meet the appropriate standards required for approval for specified indications. Clinical trials are complex, expensive, time consuming, uncertain and subject to substantial and unanticipated delays. Before we may begin clinical trials that present a significant risk to subjects, we must submit and obtain FDA approval of an investigational device exemption, or IDE, that describes, among other things, the manufacture of, and controls for, the device and a complete investigational plan. Clinical trials may involve a substantial number of patients in a multi-year study. We may encounter problems with our clinical trials and any of those problems could cause us or the FDA to suspend those trials, or delay the analysis of the data derived from them.

A number of events or factors, including any of the following, could delay or prevent the completion of our clinical trials in the future and negatively impact or even foreclose our ability to obtain FDA approval for, and to introduce a particular product:

- failure to obtain approval from the FDA or any foreign regulatory authority to commence an investigational study;
- conditions imposed on us by the FDA or any foreign regulatory authority regarding the scope or design of our clinical trials;
- delays in obtaining or in our maintaining required approvals from institutional review boards or other reviewing entities at clinical sites selected for participation in our clinical trials;
- insufficient supply of our products or other materials necessary to conduct our clinical trials;
- difficulties in enrolling patients in our clinical trials;
- negative or inconclusive results from clinical trials, or results that are inconsistent with earlier results, that necessitate additional clinical studies;
- serious or unexpected side effects experienced by patients in whom our products are implanted; or
- failure by any of our third-party contractors or investigators to comply with regulatory requirements or meet other contractual obligations in a timely manner.

Our clinical trials may not begin as planned, may need to be redesigned, and may not be completed on schedule, if at all. Delays in our clinical trials may result in increased development costs for our product candidates, which could cause our stock price to decline and limit our ability to obtain additional financing. In addition, if one or more of our clinical trials are delayed, competitors may be able to bring products to market before we do, and the commercial viability of our product candidates could be significantly reduced.

There may be unexpected findings, particularly those that may only become evident from larger scale clinical trials, as compared with the smaller scale tests we intend to do initially. The occurrence of unexpected findings in connection

with our clinical trials or any subsequent clinical trial required by our regulators may prevent or delay obtaining regulatory approval, and may adversely affect coverage or reimbursement determinations. Our regulators may also determine that additional clinical trials are necessary, in which case approval may be delayed for several months or even years while these trials are conducted. The clinical trials may not show that products we develop are safe and effective. If we are unable to complete the clinical trials necessary to successfully support our regulatory applications, our ability to commercialize our products, business, financial condition, and results of operations would be materially adversely affected.

Our products contain biologic materials, and so may face additional obstacles to FDA clearance or approval.

To complete successful clinical trials, a product must meet the criteria for clinical approval, or endpoints, established in the clinical study. These endpoints are established in consultation with the FDA, following any applicable clinical trial design guidelines, to establish the safety and effectiveness for approval of devices subject to PMA approval, or to demonstrate the substantial equivalence of devices subject to 510(k) clearance. However, in the case of products which are novel or which target parts of the human body for which there are no FDA approved products, the scientific literature may not be as complete and there may not be established guidelines for the design of studies to demonstrate the effectiveness of such products. As a result, clinical trials considering such products may take longer than average and obtaining approval may be more difficult. Additionally, the endpoints established for such a clinical trial might be inadequate to demonstrate the safety and efficacy or substantial equivalence required for regulatory clearance because they do not adequately measure the clinical benefit of the product being tested. In certain cases additional data collected in the clinical trial or further clinical trials may be required by the FDA. Any delays in regulatory approval will delay commercialization of our products, which may have an adverse effect on our business.

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The FDA regulates human therapeutic products in one of three broad categories: drugs, biologics or medical devices. The FDA's scrutiny of products containing biologic materials may be heightened. Although we anticipate that most of our products under development will be regulated in the U.S. as medical devices, we will use biological materials in the production of several devices. FDA may conclude that some of our products are combinations of devices and biologicals, or may conclude that some of our products are biologics rather than devices, potentially requiring a different and more time consuming premarket clearance mechanism. Use of this biological material in our products may result in heightened scrutiny of such product which may result in further delays in, or obstacles to, obtaining FDA clearance or approval.

Subsequent modifications to our products may require new regulatory approvals, or may require us to cease marketing or recall the modified products until approvals are obtained.

Once our products receive FDA approval or clearance, subsequent modification to our products may require new regulatory approvals or clearances, including 510(k) clearances or premarket approvals, or require us to recall or cease marketing the modified devices until these clearances or approvals are obtained. The FDA requires device manufacturers to initially make and document a determination of whether or not a modification requires a new approval, supplement or clearance. A manufacturer may determine that a modification does not require a new clearance or approval. However, the FDA can review a manufacturer's decision and may disagree. The FDA may also on its own initiative determine that a new clearance or approval is required. We may make modifications that we believe do not or will not require additional clearances or approvals. If the FDA disagrees and requires new clearances or approvals for the modifications, we may be required to recall and to stop marketing our products as modified, which could require us to redesign our products and harm our operating results. In these circumstances, we may be subject to significant enforcement actions.

If a manufacturer determines that a modification to a FDA-cleared device requires premarket clearance, then the manufacturer must file for a new 510(k) clearance or possibly a premarket approval application supplement. Where we determine that modifications to our products require a new 510(k) clearance or premarket approval application, we may not be able to obtain those additional clearances or approvals for the modifications or additional indications in a timely manner, or at all. Obtaining clearances and approvals can be a time consuming process, and delays in obtaining required future clearances or approvals would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our future growth.

If we or our suppliers fail to comply with the FDA's quality system regulations, the manufacture of our products could be delayed.

We and our suppliers are required to comply with the FDA's quality system regulations, which cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, storage and shipping of our products. The FDA enforces the quality system regulation through inspections. If we or our supplier fail a quality system regulations inspection or if any corrective action plan is not sufficient, FDA could take enforcement action, including any of the following sanctions and the manufacture of our products could be delayed or terminated:

- Ÿ untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- Ÿ customer notifications for repair, replacement, refunds;
- Ÿ recall, detention or seizure of our products;

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- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for 510(k) clearance or premarket approval of new products or modified products;
- withdrawing 510(k) clearances on PMA approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

We and our sales personnel, whether employed by us or by others, must comply with various federal and state anti-kickback, self referral, false claims and similar laws, any breach of which could cause a material adverse effect on our business, financial condition and results of operations.

Our relationships with surgeons, hospitals and the marketers of our products are subject to scrutiny under various federal anti-kickback, self-referral, false claims and similar laws, often referred to collectively as healthcare fraud and abuse laws. Healthcare fraud and abuse laws are complex, and even minor, inadvertent violations can give rise to claims that the relevant law has been violated. Possible sanctions for violation of these fraud and abuse laws include monetary fines, civil and criminal penalties, exclusion from federal and state healthcare programs, including Medicare, Medicaid, Veterans Administration health programs, workers' compensation programs and TRICARE (the healthcare system administered by or on behalf of the U.S. Department of Defense for uniformed services beneficiaries, including active duty and their dependents, retirees and their dependents), and forfeiture of amounts collected in violation of such prohibitions. Certain states have similar fraud and abuse laws, imposing substantial penalties for violations. Any government investigation or a finding of a violation of these laws would likely result in a material adverse effect on the market price of our common stock, as well as our business, financial condition and results of operations.

Anti-kickback laws and regulations prohibit any knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for the referral of an individual or the ordering or recommending of the use of a product or service for which payment may be made by Medicare, Medicaid or other government-sponsored healthcare programs. We have formed a Medical Advisory Board consisting of an aggregate of over 14 physicians and scientists to assist us with scientific research and development and to help us evaluate technologies. We have also entered into consulting agreements and product development agreements with surgeons, including some who may make referrals to us or order our products after our products are introduced to market. In addition, some of these physicians own our stock, which they purchased in arms' length transactions on terms identical to those offered to non-surgeons, or received stock options from us as consideration for consulting services performed by them. We also may engage additional physicians on a consulting basis. While these transactions were structured with the intention of complying with all applicable laws, including the federal ban on physician self referrals, commonly known as the "Stark Law," state anti-referral laws and other applicable anti-kickback laws, it is possible that regulatory or enforcement agencies or courts may in the future view these transactions as prohibited arrangements that must be restructured or for which we would be subject to other significant civil or criminal penalties, or prohibit us from accepting referrals from these surgeons. Because our strategy relies on the involvement of physicians who consult with us on the design of our product candidates, we could be materially impacted if regulatory or enforcement agencies or courts interpret our financial relationships with our physician advisors who refer or order our products to be in violation of applicable laws and determine that we would be unable to achieve compliance with such applicable laws. This could harm our reputation and the reputations of our physician advisors. In addition, the cost of noncompliance with these laws could be substantial since we could be subject to monetary fines and civil or criminal penalties, and we could also be excluded from federally funded healthcare programs, including Medicare and Medicaid, for non-compliance.

The scope and enforcement of all of these laws is uncertain and subject to rapid change, especially in light of the lack of applicable precedent and regulations. There can be no assurance that federal or state regulatory or enforcement authorities will not investigate or challenge our current or future activities under these laws. Any investigation or challenge could have a material adverse effect on our business, financial condition and results of operations. Any state or federal regulatory or enforcement review of us, regardless of the outcome, would be costly and time consuming. Additionally, we cannot predict the impact of any changes in these laws, whether these changes are retroactive or will have effect on a going-forward basis only.

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We face significant uncertainty in the industry due to government healthcare reform.

Political, economic and regulatory influences are subjecting the healthcare industry to fundamental changes. Reforms being implemented or under consideration in the United States include mandated basic healthcare benefits, controls on healthcare spending, increases in insurance premiums and increased out-of-pocket requirements for patients, the creation of large group purchasing organizations that aim to reduce the costs of products that their member hospitals consume, and significant modifications to the healthcare delivery system. We anticipate that the U.S. Congress and state legislatures will continue to review and assess alternative healthcare delivery systems and payment methods. Due to uncertainties regarding the ultimate features of reform initiatives and the timing of their enactment and implementation, we cannot predict which, if any, of such reform proposals will be adopted, when they may be adopted or what impact reform initiatives may have on us.

Risks Related to the Securities Markets and Ownership of Our Common Stock

The price of our Common Stock has been, and will likely continue to be, volatile.

The market price of our Common Stock, like that of the securities of many other companies that are in, or are just emerging from, the development stage, has fluctuated over a wide range and it is likely that the price of our Common Stock will fluctuate in the future. Over the past two fiscal years, the closing price of our Common Stock, as reported by the OTC Bulletin Board, has fluctuated from a low of $0.75 to a high of $1.75. The market price of our Common Stock could be impacted by a variety of factors, including:

- Fluctuations in stock market prices and trading volumes of similar companies or of the markets generally;
- Our ability to successfully launch, market and earn significant revenue from our products;
- Our ability to obtain additional financing to support our continuing operations;
- Disclosure of the details and results of regulatory applications and proceedings;
- Changes in government regulation;
- Additions or departures of key personnel;
- Our investments in research and development or other corporate resources;
- Announcements of technological innovations or new commercial products or services by us or our competitors;
- Developments in the patents or other proprietary rights owned or licensed by us or our competitors;
- The timing of new product introductions;
- Actual or anticipated fluctuations in our operating results, including any restatements of previously reported results;
- Our ability to effectively and consistently manufacture our products and avoid costs associated with the recall of defective or potentially defective products;
- Our ability and the ability of our distribution partners to market and sell our products;

Ÿ Changes in distribution channels; and

Ÿ The ability of our vendors to effectively and timely deliver necessary materials and product components.

Further, due to the relatively fixed nature of most of our costs, which primarily include personnel costs as well as facilities costs, any unanticipated shortfall in revenue in any fiscal quarter would have an adverse effect on our results of operations in that quarter. Accordingly, our operating results for any particular quarter may not be indicative of results for future periods and should not be relied upon as an indication of our future performance. These fluctuations could cause the trading price of our stock to be negatively affected. Our quarterly operating results have varied substantially in the past and may vary substantially in the future. In addition, the stock market has been very volatile, particularly on the OTC Bulletin Board where our stock is quoted. This volatility is often not related to the operating performance of companies listed thereon and will probably continue in the foreseeable future.

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The concentrated Common Stock ownership by certain of our executive officers and directors will limit your ability to influence corporate matters.

As of December 31, 2011, our directors and executive officers together beneficially owned approximately 29% of our outstanding Common Stock. This group has significant influence over our management and affairs and overall matters requiring shareholder approval, including the election of directors and significant corporate transactions, such as a merger or sale of our company or our assets, for the foreseeable future. This concentrated control will limit the ability of other shareholders to influence corporate matters and, as a result, we may take actions that some of its shareholders do not view as beneficial. In addition, such concentrated control could discourage others from initiating changes of control. As a result, the market price of our shares could be adversely affected.

The exercise of warrants or options or conversion of notes may depress our stock price and may result in dilution to our common stockholders.

There are a significant number of outstanding warrants and options to purchase our stock, as well as outstanding notes that are convertible into our Common Stock. If the market price of our Common Stock rises above the exercise price of outstanding warrants and options or the conversion price of the outstanding notes, holders of those securities may be likely to exercise their warrants and options or convert their notes and sell the Common Stock acquired upon exercise or conversion of such securities, as applicable, in the open market. Sales of a substantial number of shares of our Common Stock in the public market by holders of warrants, options, or notes may depress the prevailing market price for our Common Stock and could impair our ability to raise capital through the future sale of our equity securities. Additionally, if the holders of outstanding options, warrants, or notes exercise those options or warrants or convert those notes, as applicable, our common stockholders will incur dilution in their relative percentage ownership.

As of December 31, 2011, warrants to purchase 9,388,817 shares of our common stock at a weighted average exercise price of $1.00 per share were outstanding and exercisable; options to purchase 10,333,583 shares of common stock were outstanding, of which 6,000,497 were exercisable at a weighted average exercise price of $1.16 per share, the line of credit with a related party was convertible into 1,342,726 shares of common stock, the senior secured promissory notes were convertible into 5,007,732 shares of common stock at a weighted average conversion price of $1.00 per share, the Convertible debt related to the acquisition was convertible into an estimated 1,149,836 shares of common stock at a weighted average conversion price of $1.13 per share and the short term earnout liability was convertible into an estimated 2,818,781 shares of common stock at a weighted average conversion price of $1.13 per share. There is also potential further dilution in the future from the long term portion of the earnout liability and from the unvested portion of the contingent warrants.

Our Common Stock is and likely will remain subject to the SEC's "Penny Stock" rules, which may make its shares more difficult to sell.

Because the price of our Common Stock is currently and may remain less than $5.00 per share, it is expected to be classified as a "penny stock." The SEC rules regarding penny stocks may have the effect of reducing trading activity in our shares, making it more difficult for investors to sell. Under these rules, broker-dealers who recommend such securities to persons other than institutional accredited investors must:

- Ÿ make a special written suitability determination for the purchaser;
- Ÿ receive the purchaser's written agreement to a transaction prior to sale;
- Ÿ provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies;

- Obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has received the required risk disclosure document before a transaction in a "penny stock" can be completed; and

- Give bid and offer quotations and broker and salesperson compensation information to the customer orally or in writing before or with the confirmation.

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These rules make it more difficult for broker-dealers to effectuate customer transactions and trading activity in our securities and may result in a lower trading volume of our common stock and lower trading prices.

Our Common Stock may be thinly traded.

There is a minimal public market for our Common Stock. We cannot be certain more of a public market for our Common Stock will develop, or if developed, that it will be sustained. Our Common Stock will likely be thinly traded compared to larger more widely known companies. We cannot predict the extent to which an active public market for our Common Stock will develop or be sustained at any time in the future. If we are unable to develop or sustain a market for our Common Stock, investors may be unable to sell the Common Stock they own, and may lose the entire value of their investment.

Securities analysts may elect not to report on our Common Stock or may issue negative reports that adversely affect the stock price.

At this time, no securities analysts provide research coverage of our Common Stock, and securities analysts may elect not to provide such coverage in the future. Rules mandated by the Sarbanes-Oxley Act and a global settlement reached in 2003 among the SEC, other regulatory agencies, and a number of investment banks led to a number of fundamental changes in how analysts are reviewed and compensated. In particular, many investment banking firms are required to contract with independent financial analysts for their stock research. It may remain difficult for a company such as ours, with a smaller market capitalization, to attract independent financial analysts that will cover our Common Stock. If securities analysts do not cover our Common Stock, the lack of research coverage may adversely affect its actual and potential market price. The trading market for our Common Stock may be affected in part by the research and reports that industry or financial analysts publish about its business. If one or more analysts elect to cover us and then downgrade the stock, the stock price would likely decline rapidly. If one or more of these analysts cease coverage of us, we could lose visibility in the market, which in turn could cause our stock price to decline. This could have a negative effect on the market price of our shares.

We do not intend to pay cash dividends.

We have never declared or paid cash dividends on our capital stock. We currently expect to use available funds and any future earnings in the development, operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of any future debt or credit facility we may obtain may preclude us from paying any dividends. As a result, capital appreciation, if any, of our Common Stock will be an investor’s only source of potential gain from our Common Stock for the foreseeable future.

Shareholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.

If future operations or acquisitions are financed through the issuance of equity securities, shareholders could experience significant dilution. In addition, securities issued in connection with future financing activities or potential acquisitions may have rights and preferences senior to the rights and preferences of our Common Stock. The issuance of shares of our Common Stock upon the exercise of options may result in dilution to our shareholders.

We may become involved in securities class action litigation that could divert management’s attention and harm its business.

The stock market in general and the stocks of medical device companies in particular have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating

performance of the companies involved. If these fluctuations occur in the future, the market price of our shares could fall regardless of its operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has been brought against that company. If the market price or volume of our shares suffers extreme fluctuations, then we may become involved in this type of litigation which would be expensive and divert management's attention and resources from managing the business.

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Anti-takeover provisions in our organizational documents may discourage or prevent a change of control, even if an acquisition would be beneficial to shareholders, which could affect our share price adversely and prevent attempts by shareholders to replace or remove current management

Our Articles of Incorporation and Bylaws contain provisions that could delay or prevent a change of control of our company or its Board of Directors that shareholders might consider favorable. Some of these provisions include:

- authorizing the issuance of preferred stock which can be created and issued by the Board of Directors without prior common stock shareholder approval, with rights senior to those of the common stock;
- restricting persons who may call shareholder meetings; and
- allowing the Board to fill vacancies and to fix the number of directors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Kennesaw, Georgia where we lease approximately 20,300 square feet of office, laboratory and manufacturing space. We lease approximately 21,200 square feet nearby, which primarily consists of laboratory, manufacturing and warehouse space. We believe these facilities are adequate for our current activities but expect to lease additional space in conjunction with executing our business plan.

Item 3. Legal Proceedings

None outside the ordinary course of business.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our Common Stock was approved for quotation on the OTC Bulletin Board on July 19, 2007. Only a limited number of shares were traded after the approval of the quotation in July 2007. The Common Stock was traded with the trading symbol of "AYXC."

Our common stock began trading under the symbol "MDXG" on April 2, 2008. The following table sets forth the high and low bid prices on the OTC Bulletin Board for our common stock, based on information provided from OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

Year ended December 31, 2011	High	Low
First Quarter	$ 1.42	$ 1.04
Second Quarter	1.15	0.76
Third Quarter	1.39	1.00
Fourth Quarter	1.25	1.00

Year ended December 31, 2010	High	Low
First Quarter	$ 1.75	$ 0.75
Second Quarter	1.55	1.00
Third Quarter	1.48	0.99
Fourth Quarter	1.35	0.80

Based upon information supplied from our transfer agent, there were approximately 1,100 shareholders of record of our Common Stock as of March 1, 2012.

We have not paid any cash dividends on our Common Stock since our formation and do not intend to do so in the future.

To facilitate trading in the Company's shares, the Board is considering applying for a listing on a national exchange. If the Board does determine to pursue listing on a national exchange, the Company may consider implementing a reverse split of its Common Stock.

Unregistered Sales of Equity Securities and Use of Proceeds

As reported in Note 10 "Common Stock Placements" in our consolidated financial statements as of and for the twelve months ended December 31, 2011, the Company sold an additional 3,778,321 shares of Common Stock and issued an additional 1,889,161 warrants and received cash proceeds of approximately $3,731,000. See "Notes to Consolidated Financial Statements" for the terms of the Warrants. These sales were made in conjunction with the Company's most recent private placement which commenced in October 2010 ("October 2010 Private Placement"); the offering was closed during the quarter ended September 30, 2011, and no further sales occurred during the three months ended December 31, 2011.

The Company relied on Section 4(2) of the Securities Act of 1933 (the "Securities Act") and Rule 506 of Regulation D under the Securities Act, as amended, to issue the securities described above because they were offered to accredited investors and a limited number of unaccredited investors who purchased for investment in transactions that did not

involve a general solicitation.

We did not repurchase any shares during the year ended December 31, 2011, and currently have no share repurchase plans or programs.

Item 6. Selected Financial Data

Not applicable.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of financial condition and results of operations, together with the financial statements and the related notes appearing at the end of this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

The discussion and analysis of our financial condition and results of operations are based on the Company's financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires making estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue, if any, and expenses during the reporting periods. On an ongoing basis, we evaluate such estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Overview

MiMedx Group, Inc. and subsidiaries ("MiMedx Group" or the "Company") is an integrated developer, manufacturer and marketer of patent protected regenerative biomaterial products and allografts processed from human amniotic membrane. "Innovations in Regenerative Biomaterials" is the framework behind our mission to give physicians products and tissues to help the body heal itself. Our biomaterial platform technologies include the device technologies HydroFix® and CollaFixTM, and our tissue technologies, AmnioFix® and EpiFix®. Our tissue technologies, processed from the human amniotic membrane, utilize our proprietary Purion® process that was developed by our wholly-owned subsidiary, Surgical Biologics, to produce a safe, effective and minimally manipulated implant. Surgical Biologics is the leading supplier of amniotic tissue, having supplied over 70,000 implants to date to distributors and OEMs for application in the Ophthalmic, Orthopedics, Spine, Wound Care and Dental sectors of healthcare.

Our initial business strategy was to identify and acquire innovative new medical products and technologies, focused initially on the musculoskeletal market, as well as novel medical instrumentation and surgical techniques. We subsequently refined our strategy to specialize in proprietary biomaterial technologies that can be transformed into unique medical devices that fill an unmet or underserved clinical need. Our HydroFix® hydrogel technology and our CollaFixTM collagen fiber technology are proprietary platforms that can serve as the basis for medical devices in various orthopedic and orthobiologic applications, such as spine, sports medicine, and trauma. We also have identified multiple product opportunities in general surgery, drug delivery, wound management and cardiac markets among others. During 2010, the Company looked to acquire technologies that could leverage the established distribution channels without the regulatory risk associated with the HydroFix® and CollaFixTM platforms. As a result of the search the Company acquired Surgical Biologics which was the market leader in amniotic tissue processing.

Our focus is on soft tissue repair. Our internal commercialization efforts relative to our EpiFix®, AmnioFix®, HydroFix® and CollaFixTM materials are targeting large markets totaling in excess of $10B, several of which are growing at high single or low double digits annually. Our targeted markets include wound management, orthopedics and spine. As appropriate, we may partner with large, established companies in the general surgery, drug delivery, cardiac and other markets. Initial conversations with such external relationships have been initiated, but they will take

time to develop.

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Our distribution model is currently comprised of an evolving network of third party sales agents and stocking distributors managed by regional sales managers marketing MiMedx branded products. We have several OEM relationships targeting several niche markets. We also market our products internationally through stocking distributors.

We have organized an advisory panel of leading physicians to provide insight into our primary fields of interest for new products and technology, as well as guidance and advice with respect to ongoing product development programs.

Our core focus is on near-term opportunities for our EpiFix® and AmnioFix® platforms while continuing to advance our device technologies through the regulatory process.

With the acquisition of Surgical Biologics we have added technologies that do not require a 510K or PMA clearance as both the EpiFix® and AmnioFix® platforms are considered human tissue under Section 361 of the Public Health Services Act due to the fact that they are not more than minimally manipulated and are for homologous use only. Our near term focus for these products is on working with the private payers and Medicare to assure adequate and timely reimbursement. On January 1, 2012, our CMS C-Code went into effect which allows for Medicare reimbursement in Ambulatory Surgery Centers and Hospital Outpatient Centers for EpiFix®. Additionally, we added the permanent position of Chief Medical Officer to lead the efforts related to reimbursement. We filled the position with a doctor who served for many years as Medical Director for a major private payer and has extensive experience working with Medicare. This individual is also responsible for managing our clinical trials.

Critical Accounting Policies

We believe that of our significant accounting policies, which are described in Note 2 to our financial statements appearing elsewhere in this report, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Goodwill and intangible assets

Intangible assets include licensing rights and are accounted for based on FASB Accounting Standards Codification 350, “Intangibles — Goodwill and Other” (ASC 350), previously referred to as Financial Accounting Standard Statement No. 142 Goodwill and Other Intangible Assets. In that regard, goodwill is not amortized but is tested at least annually for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The accounting for a recognized intangible asset is based on its useful life to the reporting entity. An intangible asset with a finite useful life shall be amortized; an intangible asset with an indefinite useful life shall not be amortized. Significant judgments are involved in estimating future cash flows used to support the carrying value of goodwill and indefinite lived intangible assets.

Impairment of long-lived assets

We evaluate the recoverability of our long-lived assets (finite lived intangible asset and property and equipment) whenever adverse events or changes in business climate indicate that the expected undiscounted future cash flows from the related assets may be less than previously anticipated. If the net book value of the related assets exceeds the expected undiscounted future cash flows of the assets, the carrying amount will be reduced to the present value of their expected future cash flows and an impairment loss would be recognized. Factors that may cause long-lived asset impairment include negative industry or economic trends and significant underperformance relative to historical or projected future operating results.

Share-based compensation

We follow the provisions of FASB Accounting Standards Codification 718, “Compensation — Stock Compensation” (ASC 718), previously referred to as Statement of Financial Accounting Standards No. 123R — Share-based Payments which requires the measurement and recognition of compensation expense for all share-based payment awards either modified or granted to employees and directors based upon estimated fair values. The Black-Scholes-Merton option-pricing model, consistent with the provisions of ASC 718, was used to determine the fair value of each option granted. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company uses projected volatility rates, which are based upon historical volatility rates, trended into future years. Because the Company’s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s options.

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Debt Instruments with Detachable Warrants and Beneficial Conversion Features

According to ASC-470 Debt Instruments with Detachable Warrants, proceeds from the sale of debt instruments with stock purchase warrants (detachable call options) shall be allocated to the two elements based upon the relative fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. The Black-Scholes-Merton pricing model, consistent with the provisions of ASC 470, was used to determine the fair value of each warrant granted. The portion of the proceeds so allocated to the warrants is accounted for as paid-in capital. The remainder of the proceeds is allocated to the debt instrument portion of the transaction. Also, the embedded beneficial conversion feature present in the convertible instrument is recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital.

Contingent Consideration

The Agreement and Plan of Merger between the Company and the former owners of Surgical Biologics (“the Merger”) dated January 5, 2011 involves the potential for the payment of future contingent consideration in MiMedx common stock. Payment of the additional consideration is contingent on the acquired company reaching sixty percent (60%) of the excess of the amniotic tissue based gross revenues in calendar year 2011 over gross revenues in calendar year 2010 minus any FDA approval costs. The payment shall be made as the aggregate number of shares of MiMedx Common Stock per a specified formula in the Agreement and Plan of Merger. In addition the Company shall deliver to the former owners of Surgical Biologics an aggregate number of shares of the Company equal to thirty percent (30%) of the Gross Revenues in calendar year 2012 over the Gross Revenues in calendar year 2011 minus any FDA approval costs. The Company shall deliver the contingent consideration no later than 30 days after the Company files its Form 10-K. The contingent consideration was originally recorded at the estimated fair value of the contingent milestone payment on the acquisition date. The fair value of the contingent milestone consideration was remeasured at the estimated fair value as of December 31, 2011 with the change in fair value recognized as income or expense within Other Income (Expense) in the condensed consolidated statements of earnings.

At December 31, 2011, the fair value of the contingent consideration tied to 2011 revenue was calculated to be approximately $3,185,000 and the liability adjusted and recorded as a current liability in the consolidated balance sheet and is due to be paid in MiMedx common stock not more than 30 days following the filing of our Form 10-K. The estimated maximum potential amount of undiscounted future contingent consideration tied to revenue for calendar year 2012 was approximately $4,225,000 and was recorded in the non-current liability section of the consolidated balance sheet.

Recently Adopted Accounting Pronouncements

In December 2010, the FASB issued Accounting Standards Update (ASU) 2010-28: Intangibles — Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (Topic 350). The amendments to the Codification in this update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. Goodwill of a reporting unit is required to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This update is effective starting in the first quarter of 2011 with early adoption not permitted. Adoption of this update had no impact on our financial statements.

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In December 2010, the FASB issued ASU 2010-29: Business Combinations: Disclosure of Supplementary Pro Forma Information for Business Combinations (Topic 805). The amendments to the Codification in this ASU apply to any public entity that enters into business combination that are material on an individual or aggregate basis and specify that the entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning in January 2011 with early adoption permitted. We adopted this update for the acquisition completed in 2011.

Recently Issued Accounting Pronouncements Not Yet Adopted

In September 2011, the FASB issued ASU Update No. 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment. The amendment simplifies how entities test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance under Topic 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is permitted. Its adoption is not expected to significantly impact the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments to the Codification in this ASU will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011. Because this ASU impacts presentation only, it will have no effect on our financial condition, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”). The amendments to the Codification in this ASU will provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This guidance is effective for the Company beginning on January 1, 2012. Its adoption is not expected to significantly impact the Company’s consolidated financial statements.

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Results of Operations for the year ended December 31, 2011, compared to the year ended December 31, 2010

Revenue

Total revenue increased from $789,000 in 2010 to $7,760,000 in 2011. Net tissue processing revenue resulting from the Surgical Biologics acquisition was approximately $7,434,000 for the year ended December 31, 2011, and our net product sales for HydroFix® Vaso Shield products in the U.S. and HydroFix® Spine Shield products outside the U.S. was approximately $326,000 during the same period, compared to approximately $544,000 for the year ended December 31, 2010. The decrease in sales of HydroFix® products from the prior year was a result of our focus on tissue products and the Surgical Biologics acquisition. During the year ended December 31, 2010, we also had other revenue of $245,000 for the Qualifying Therapeutic Discovery Project grant from the U.S. Government.

Tissue Processing Costs and Cost of Products Sold

Products and processing costs as a percentage of total revenue for the year ended December 31, 2011 improved to 41% from 218% in the prior year. The improvement was due primarily to the increase in revenue attributable to the products acquired in the Surgical Biologics transaction. It should be noted that as our sales levels and corresponding production levels increase, these costs as a percentage of total revenues will continue to decrease resulting in higher gross margins.

Personnel costs represent approximately $1,960,000 or 62% of total manufacturing, quality assurance and regulatory spending for the year ended December 31, 2011, compared to 73% for the year ended December 31, 2010. We employed 22 full-time and two part-time manufacturing and quality assurance technicians at December 31, 2011, compared to nine full-time personnel for year ended December 31, 2010. The increase of 13 full-time and two part-time employees was attributable to the acquisition of Surgical Biologics. Allocation of fixed production overheads is based on the normal capacity of production facilities. We anticipate spending in the area of manufacturing and quality assurance to increase in support of production rate increases.

Research and Development Expenses

Research and development expenses during the year ended December 31, 2011, decreased approximately $151,000 to $2,603,000 compared to $2,753,000 for the year ended December 31, 2010. The decrease was due primarily to a reduction in personnel and operating costs related to the closure of the Tampa facility of approximately $1,017,000, which was offset by the addition of Surgical Biologics research and development costs of approximately $562,000, and increased costs in administrative and product development for personnel, travel and patent legal costs of $304,000.

Our research and development expenses consist primarily of internal personnel costs, fees paid to external consultants, and supplies and instruments used in our laboratories. As of December 31, 2011, we employed five employees devoted to research and development, compared to 12 full-time and two part-time employees devoted to these efforts as of December 31, 2010. Internal personnel costs, including salaries, severance and benefits, were approximately $1,113,000 or 43% of total research and development expenses during the year ended December 31, 2011, as compared to approximately $1,462,000 or 53% for the year ended December 31, 2010. Headcount reductions as a result of the Tampa facility closure occurred primarily in the second half of the year ended December 31, 2011. Development and testing represented approximately $761,000 or 29% and $584,000 or 21%, respectively, of research and development expenses during the year ended December 31, 2011 as compared to the year ended December 31, 2010. We anticipate our spending in the area of research and development in the foreseeable future to continue at comparable current levels as we progress our technologies through additional clinical trials in support of our marketing and reimbursement efforts.

Selling, General and Administrative Expenses

Selling, General and Administrative expenses for the year ended December 31, 2011, increased approximately $4,916,000 to $11,764,000 compared to $6,848,000 for the year ended December 31, 2010. Selling, General and administrative expenses consist of personnel costs, professional fees, sales commissions, sales training costs, industry trade show fees and expenses, product promotions and product literature costs, facilities costs and other sales, marketing and administrative costs, depreciation and amortization, and share-based compensation. As of December 31, 2011, we employed 20 full-time and three part-time personnel in selling, general and administrative functions, compared to 11 full-time and two part-time personnel for the year ended December 31, 2010. The increase in staffing was primarily due to the acquisition of Surgical Biologics and additional sales and support personnel required for the increased sales and market development.

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The acquisition of Surgical Biologics increased general and administrative expenses by approximately $2,686,000, including $236,000 in legal fees and $48,000 in external auditing fees, the majority of which is related to the merger, $596,000 in additional expenses for Surgical Biologics staff and general office expenses, $1,098,000 in sales and marketing expenses and rent, and $708,000 of depreciation and amortization. Our sales and marketing expenses increased by $1,369,000 as a result of our expanded sales team to support our rapid growth, increased commissions due to increased sales, and trade show and market launch expenses. Our share-based compensation increased by approximately $488,000, and our director fee expense increased by $185,000 as the result of restructuring board compensation in mid-2010, and was offset by $237,000 due to reductions in accounting, recruiting costs, consulting and travel costs.

During the years ended December 31, 2011 and 2010, we recorded approximately $447,000 and $444,000 in depreciation expense, respectively. The $3,000 increase in depreciation was attributable to the acquisition of Surgical Biologics and some additional lab equipment acquired during the year ended December 31, 2011, offset by leasehold improvements in the terminated Marietta facility being fully depreciated. We depreciate our assets on a straight-line basis, principally over five to seven years.

Share based compensation for the year ended December 31, 2011, was approximately $1,659,000 as compared to $1,171,000 for the year ended December 31, 2010, an increase of approximately $488,000 or 42%. Increased employee stock option grants reflect management's alignment of employee compensation with investor objectives. Additionally, during the year ended December 31, 2011, we recorded approximately $416,000 expense related to the termination of an exclusive licensing agreement, and approximately $6,000 as an adjustment to the fair value of the earn-out liability related to the acquisition of Surgical Biologics.

During the years ended December 31, 2011 and 2010, we recorded approximately $1,336,000 and $668,000 in amortization expense, respectively. All of the $668,000 increase in amortization expense was attributable to the acquisition of Surgical Biologics. We amortize our intangible assets over a period of three to fourteen years, which we believe represents the remaining useful lives of the patents underlying the licensing rights and intellectual property. We do not amortize goodwill but we test at least annually our goodwill for impairment and periodically evaluate other intangibles for impairment based on events or changes in circumstances as they occur.

We anticipate spending in the area of general and administrative expenses in the foreseeable future to continue at comparable current levels.

Other Income / (Expense)

We recorded other expense of approximately $0 and $287,000 for the years ended December 31, 2011 and 2010, respectively. The $287,000 expense in 2010 was related to financing expense in conjunction with hybrid debt instruments issued during 2010.

Net Interest Expense

We recorded net interest expense of approximately $433,000 during the year ended December 31, 2011 compared to net interest expense of approximately $600,000 during the year ended December 31, 2010. The net interest expense during the year ended December 31, 2011, includes approximately $320,000 amortization on the discounts on the acquisition convertible note, the convertible line of credit with a related party, and the Senior Secured Promissory Notes. Accrued interest on the aforementioned notes and other obligations was approximately $110,000 during the year, and we incurred approximately $3,000 foreign exchange loss during the current year. The approximate $600,000 interest expense recorded during the year ended December 31, 2010, was primarily related to our 3% Convertible Notes issued in 2009.

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Contractual Commitments

The table below sets forth our known contractual obligations as of December 31, 2011:

		Payments due by period			
Contractual Obligations	TOTAL	less than 1 year	1-3 years	3-5 years	More than 5 years
Convertible senior secured promissory notes	$ 5,000,000	—	5,000,000	—	—
Convertible debt, line of credit with related party	1,300,000	1,300,000	—	—	—
Convertible debt, note related to acquisition of SB	1,250,000	1,250,000	—	—	—
Employment agreements	483,934	483,934	-	—	—
Operating lease obligations	901,236	480,244	420,992	—	—
Royalty payments	140,000	45,000	95,000	—	—
	$ 9,075,170	3,559,178	5,515,992	—	—

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Liquidity and Capital Resources

The Company emerged from being a development stage company in 2010. Planned principal operations have commenced, but the revenue has not been significant enough to fund ongoing operations. The Company's cash requirements for the twelve months ended December 31, 2011, arose out of general working capital needs and the acquisition of Surgical Biologics. The Company funded its cash requirements primarily through a combination of debt and equity financings with a lesser amount derived from company revenue. As of December 31, 2011, the Company had approximately $4,112,000 of cash and cash equivalents. The Company raised approximately $10,139,000 through its financing activities net of loan repayments and reduced the cash required by operating and investing activities by approximately $942,000 as compared to the prior year. The Company reported total current assets of approximately $6,882,000 and current liabilities payable in cash of approximately $4,732,000 after adjusting for the approximate $3,185,000 of short term earn-out liability payable in MiMedx common stock in the second quarter of 2012. Also included in current liabilities is a convertible line of credit with a related party for approximately $1,296,000 which is due on December 31, 2012, which can be extended for an additional 12 months by paying a fee of five percent of the amount due or $65,000. The Company believes that its cash and cash equivalents and anticipated cash from operations will enable the Company to meet its operational liquidity needs, fund its planned investing activities and pay its debt when due for the next twelve months.

Discussion of cash flows

Net cash used in operations during the twelve months ended December 31, 2011, decreased approximately $1,493,000 to $6,665,000 compared to $8,158,000 used in operating activities for the twelve month period ended December 31, 2010, primarily attributable to our increased sales activity. The changes in assets and liabilities included in the Statement of Cash Flows are net of the effects of the Surgical Biologics acquisition.

Net cash used in investing activities during the twelve months ended December 31, 2011, increased approximately $551,000 to $703,000 compared to $152,000 used in investing activities for the twelve month period ended December 31, 2010. Of the $551,000 increase, $467,000 was cash paid in conjunction with the Surgical Biologics acquisition, and approximately $335,000 was cash paid for additional lab equipment and furniture for the Kennesaw facility, somewhat offset by a grant from the State of Georgia of $250,000.

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Net cash flows from financing activities during the twelve months ended December 31, 2011, increased approximately $3,142,000 to $10,139,000 compared to $6,997,000 during the twelve months ended December 31, 2010. Cash flows from financing activities during the current year include approximately $5,000,000 related to our Senior Secured Promissory Note offering which closed in December, $3,731,000 related to our October 2010 Private Placement, $1,300,000 borrowed from our Revolving Secured Line of Credit with a related party, approximately $296,000 received from the exercise of stock options, the repayment of approximately $99,000 outstanding under a line of credit assumed in the acquisition of Surgical Biologics, and the payment of approximately $89,000 in principal and interest on three notes assumed in the acquisition of Surgical Biologics.

Due to the material amount of non-cash related items included in the Company results of operations, the Company has developed an Adjusted EBITDA metric which provides management with a clearer view of operational cash burn (see the table below). The adjusted EBITDA loss for the year was approximately $6,300,000 which is a reduction of approximately $1,930,000 or 23% as compared to the previous year. This improvement was the result of increased revenue combined with reduced spending.

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We use various numerical measures in conference calls, investor meetings and other forums which are or may be considered "Non-GAAP financial measures" under Regulation G. We have provided below for your reference, supplemental financial disclosure for these measures, including the most directly comparable GAAP measure and an associated reconciliation. The following table provides reconciliation of reported Net Loss on a GAAP basis to Adjusted EBITDA defined as Earnings before Interest, Taxes, Depreciation, Amortization and Share Based Compensation:

	Year Ended December 31,	
	2011	2010
Net Loss (Per GAAP)	$ (10,193,986)	$ (11,419,753)
Add back:		
Income Taxes	-	-
Financing expense associated with warrants issued in connection with convertible promissory note	-	595,679
Financing (expense) associated with beneficial conversion of hybrid debt instrument	-	287,448
Financing expense associated with beneficial conversion of note payable issued in conjunction with acquisition	266,991	-
Financing expense associated with beneficial conversion of Line of Credit with Related Party	33,254	-
Financing expense associated with beneficial conversion of Senior Secured Promissory Notes	14,907	-
Other interest expense, net	117,818	3,970
Depreciation Expense	446,502	444,259
Amortization Expense	1,335,908	667,932
Employee Share Based Compensation	1,307,869	996,307
Other Share Based Compensation	351,214	174,354
Loss Before Interest, Taxes, Depreciation, Amortization and Share Based Compensation	$ (6,319,523)	$ (8,249,804)

Inflation

We do not believe that the rate of inflation has had a material effect on our operating results. However, inflation could adversely affect our future operating results.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's business is anticipated to be directly dependent on foreign operations as the Company's sales to customers outside the U.S. become significant. A portion of the Company's total revenue is anticipated to be dependent on selling to distributors outside the U.S., some of which will be invoiced in foreign currencies, primarily the EURO. There is also risk related to the changes in foreign currency exchange rates as it relates to sales operating expenses paid in EUROs. We are currently considering taking affirmative steps to hedge the risk of fluctuations in foreign currency exchange rates as revenue continues to increase. We do not expect our financial position, results of operations or cash flows to be materially impacted due to a sudden change in foreign currency exchange rates fluctuations relative to the U.S. Dollar over the next six months.

Our exposure to market risk relates to our cash and investments.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest our excess cash in debt instruments of the U.S. Government and its agencies, bank obligations, repurchase agreements and high-quality corporate issuers, and, by policy, restrict our exposure to any single corporate issuer by imposing concentration limits. To minimize the exposure due to adverse shifts in interest rates, we maintain investments at an average maturity of generally less than three months.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

Board of Directors

MiMedx Group, Inc.

We have audited the accompanying consolidated balance sheets of MiMedx Group, Inc. and subsidiaries as of December 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the consolidated financial position of MiMedx Group, Inc. and subsidiaries as of December 31, 2011, and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Cherry, Bekaert & Holland, L.L.P

Atlanta, Georgia

March 29, 2012

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MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2011	2010
Current assets:		
Cash and cash equivalents	$4,112,326	$1,340,922
Accounts receivable, net	1,891,919	162,376
Inventory, net	712,602	111,554
Prepaid expenses and other current assets	164,664	90,946
Total current assets	6,881,511	1,705,798
Property and equipment, net of accumulated depreciation of $1,814,473and $1,392,704, respectively	869,411	756,956
Goodwill	4,040,443	857,597
Intangible assets, net of accumulated amortization of $3,468,515and $2,132,606, respectively	15,090,485	3,929,394
Deposits and other long term assets	214,342	102,500
Total assets	$27,096,192	$7,352,245
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$2,300,638	$848,285
Convertible notes, plus accrued interest of $3,432	-	403,432
Deferred rent current	6,620	-
Convertible line of credit with related party, net of unamortized discount of $46,746 plus accrued interest of $42,726	1,295,980	-
Convertible debt related to acquisition, net of unamortized discount of $170,509 plus accrued interest of $49,315	1,128,806	-
Current portion of earn-out liability payable In MiMedx common stock	3,185,223	-
Total current liabilities	7,917,267	1,251,717
Earn-out liability payable in MiMedx common stock, net of current portion	4,225,280	-
Convertible Senior Secured Promissory Notes, net of unamortized discount of $2,263,145 plus accrued interest of $7,732	2,744,587	-
Other liabilities	312,493	-
Total liabilities	15,199,627	1,251,717
Commitments and contingency (Note 15)	-	-
Stockholders' equity:		
Preferred stock; $.001 par value; 5,000,000 shares authorized and 0 shares issued and outstanding	-	-

Common stock; $.001 par value; 100,000,000 shares authorized;74,306,895 issued and 74,256,895 outstanding for 2011 and 64,381,910 issued and 64,331,910 outstanding for 2010	74,307	64,382
Additional paid-in capital	73,868,604	57,888,506
Treasury stock (50,000 shares at cost)	(25,000)	(25,000)
Accumulated deficit	(62,021,346)	(51,827,360)
Total stockholders' equity	11,896,565	6,100,528
Total liabilities and stockholders' equity	$27,096,192	$7,352,245

See notes to consolidated financial statements

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MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2011	2010
REVENUES:		
Net sales	$7,760,446	$544,155
Grant revenue	-	244,719
Total revenue	7,760,446	788,874
OPERATING COSTS AND EXPENSES:		
Cost of products sold	3,154,594	1,720,063
Research and development expenses	2,602,751	2,753,331
Selling, general and administrative expenses	11,764,117	6,848,135
LOSS FROM OPERATIONS	(9,761,016)	(10,532,655)
OTHER INCOME (EXPENSE), net		
Financing expense associated with warrants issued in connection with convertible promissory note	-	(287,449)
Interest (expense) income, net	(432,970)	(599,649)
LOSS BEFORE INCOME TAXES	(10,193,986)	(11,419,753)
Income taxes	-	-
NET LOSS	$(10,193,986)	$(11,419,753)
Net loss per common share		
Basic and diluted	$(0.14)	$(0.19)
Shares used in computing net loss per common share		
Basic and diluted	72,450,337	59,138,357

See notes to consolidated financial statements

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MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Convertible Preferred Stock Series A Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
Balances, December 31, 2009	-	$-	50,002,887	$50,003	$46,454,482	$(25,000)	$(40,407,607)	$6,071,878
Employee share-based compensation expense	-	-	-	-	996,307	-	-	996,307
Other share-based compensation expense	-	-	-	-	174,354	-	-	174,354
Beneficial conversion feature recognized on convertible debt	-	-	-	-	287,448	-	-	287,448
Sale of common stock and warrants (net of $67,980 of offering costs)	-	-	3,713,433	3,713	3,118,307	-	-	3,122,020
Exercise of stock options	-	-	210,250	211	154,915	-	-	155,126
Exercise of warrants	-	-	3,219,348	3,219	3,216,130	-	-	3,219,349
Shares issued in conjunction with conversion of convertible debt	-	-	7,235,992	7,236	3,486,563	-	-	3,493,799
Net loss for the peiod	-	-	-	-	-	-	(11,419,753)	(11,419,753)
Balances, December 31, 2010	-	-	64,381,910	64,382	57,888,506	(25,000)	(51,827,360)	6,100,528
Employee share-based compensation expense	-	-	-	-	1,307,869	-	-	1,307,869
Other share-based compensation expense	-	-	-	-	351,214	-	-	351,214
Exercise of stock options	-	-	490,000	490	295,263	-	-	295,753
Sale of common stock and warrants (net of $47,733 of offering costs)	-	-	3,778,321	3,779	3,726,808	-	-	3,730,587

Shares issued in conjunction with conversion of convertible debt	-	-	406,664	406	406,257	-	-	406,663
Shares issued in conjunction with acquisition of Surgical Biologics, LLC	-	-	5,250,000	5,250	7,082,250	-	-	7,087,500
Beneficial conversion feature recognized on convertible debt	-	-	-	-	2,715,552	-	-	2,715,552
Warrants issued in conjunction with convertible promissory notes	-	-	-	-	14,885	-	-	14,885
Discount on benefical conversion feature recognized on line of credit with related party	-	-	-	-	80,000	-	-	80,000
Net loss for the peiod	-	-	-	-	-	-	(10,193,986)	(10,193,986)
Balances, December 31, 2011	-	$-	74,306,895	$74,307	$73,868,604	$(25,000)	$(62,021,346)	$11,896,565

See notes to consolidated financial statements

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MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net loss	$(10,193,986)	$(11,419,753)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation	446,502	444,259
Amortization of intangible assets	1,335,908	667,932
Amortization of debt discount and deferred financing costs	315,152	599,001
Employee share-based compensation expense	1,307,869	996,307
Other share-based compensation expense	351,214	174,354
Change in fair value of earn-out liability	5,803	-
Financing expense associated with warrants issued in connection with convertible promissory note	-	287,448
Increase (decrease) in cash resulting from changes in (net of effects of acquisition):		
Accounts receivable	(1,208,456)	(162,376)
Inventory	(253,942)	(80,634)
Prepaid expenses and other current assets	(70,980)	30,331
Other assets	(80,375)	86,702
Accounts payable and accrued expenses	1,256,251	218,936
Accrued interest	107,886	-
Other liabilities	16,383	-
Net cash flows from operating activities	(6,664,771)	(8,157,493)
Cash flows from investing activities:		
Purchases of equipment	(486,091)	(151,617)
Proceeds from REBA grant	250,000	-
Cash paid for acquisition, net of cash aquired of $33,583	(466,417)	-
Net cash flows from investing activities	(702,508)	(151,617)
Cash flows from financing activities:		
Proceeds from Senior Secured Promissory Notes	5,000,000	-
Proceeds from Note Payable with related party	1,300,000	-
Proceeds from Bridge Loan	-	500,000
Repayment of Line of Credit	(99,000)	-
Repayment of Notes Payable	(88,657)	-
Proceeds from sale of common stock and warrants and common stock with registration rights, net	3,730,587	3,122,020
Proceeds from exercise of stock options	295,753	155,126
Proceeds from exercise of warrants	-	3,219,349
Net cash flows from financing activities	10,138,683	6,996,495
Net change in cash	2,771,404	(1,312,615)
Cash, beginning of period	1,340,922	2,653,537
Cash, end of period	$4,112,326	$1,340,922

Supplemental disclosure of cash flow information:		
Cash paid for interest	$15,456	$8,330
Cash paid for income taxes	$-	$-

See notes to consolidated financial statements

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Supplemental disclosure of non-cash financing activity:

During the year ended December 31, 2011:

* the Company converted its outstanding convertible debt and accrued interest to equity by issuing 406,664 shares of common stock

* the Company issued 5,250,000 shares of stock valued at $7,087,500 and issued convertible secured promissory notes for $1,250,000 in conjunction with its acquisition of Surgical Biologics

* the Company recognized a beneficial conversion feature valued at $437,500 related to the convertible debt issued with regard to its acquisition of Surgical Biologics, LLC

* the Company recognized a beneficial conversion feature valued at $80,000 related to the convertible debt issued with regard the Note Payable to related party

* the Company recognized a beneficial conversion feature valued at $2,278,052 related to the convertible debt issued with regard to the Senior Secured Promissory Notes

* the Company issued warrants valued at $14,885 for placement fees associated with the Senior Secured Promissory Notes

During the year ended December 31, 2010:

* the Company issued 500,000 warrants in conjunction with the issuance of Hybrid Debt instruments valued at $141,974

* the Company recognized a beneficial conversion feature valued at $145,474 related to the Hybrid Debt instruments

* the Company recognized the amortization of debt discount and deferred financing costs related to the conversion of convertible debt in the amount of $599,001

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MIMEDX GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2011 AND 2010

1. Formation and nature of business

Nature of business

Prior to the fiscal year ended December 31, 2010, MiMedx Group, Inc. and Subsidiaries ("MiMedx") was considered a Development Stage Enterprise.

MiMedx acquired a license for the use, adoption and development of certain core technologies developed at the Shriners Hospital for Children and the University of South Florida Research Foundation. This technology focuses on biomaterials for soft tissue repair, such as tendons, ligaments and cartilage, as well as other biomaterial-based products for numerous other medical applications. The development of the licensed technologies requires continued research and development and, ultimately, the approval of the U.S. Food and Drug Administration ("FDA") and/or foreign regulatory authorities in order for the Company to be able to generate revenue from the sale of its products. The Company received European regulatory approval in January of 2012 for the CollaFixTM surgical mesh product. The Company is continuing to work on obtaining approval in the U.S. and there can be no assurance that the Company will be successful in its efforts to commercialize the licensed technology.

On July 23, 2007, MiMedx acquired SpineMedica Corp. through its wholly-owned subsidiary, SpineMedica, LLC ("SpineMedica"). SpineMedica Corp. was incorporated in the State of Florida on June 9, 2005, and its successor SpineMedica, LLC was incorporated in the State of Florida on June 27, 2007. SpineMedica has licensed the right to use Salubria®, or similar poly-vinyl alcohol ("PVA") -based biomaterials for certain applications within the body. SpineMedica also owns certain assets (equipment) for the production of products based on a PVA-based hydrogel, which is a water-based biomaterial that can be manufactured with a wide range of mechanical properties, including those that appear to closely mimic the mechanical and physical properties of natural, healthy human tissue.

On January 5, 2011, the Company acquired all of the outstanding equity interests in Surgical Biologics, LLC, for an aggregate of $500,000 in cash, $1,250,000 in notes payable, 5,250,000 shares of MiMedx Common Stock, $183,000 in assumed debt, and certain additional contingent considerations of approximately $7,405,000. Surgical Biologics, LLC ("SB") develops allografts processed from human amniotic membrane that can be used for a wide range of surgical indications including ocular surface repair, gum repair, wound care, burns, and many other types of surgery that require the repair of a patient's integumental (native) tissue. SB operates as a wholly owned subsidiary of MiMedx.

The Company operates in one business segment, Regenerative Biomaterials, which includes the design, manufacture, and marketing of products and tissue processing services for the Wound Care, Orthopedics, Spine, Ophthalmic and Dental market categories.

2. Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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Principles of consolidation

The financial statements include the accounts of MiMedx Group, Inc. and its wholly-owned subsidiaries MiMedx, SpineMedica, and Surgical Biologics. All significant inter-company balances and transactions have been eliminated.

Segment Reporting

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

Market concentrations and credit risk

The Company places its cash and cash equivalents on deposit with financial institutions in the United States. In July 2010, the Federal Deposit Insurance Corporation ("FDIC") increased coverage to $250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The temporary unlimited coverage is scheduled to expire on December 31, 2012, at which time it is anticipated amounts insured by the FDIC will return to $250,000. During the year, the Company from time to time may have had amounts on deposit in excess of the insured limits. As of December 31, 2011, the Company had cash and cash equivalents of approximately $2,821,000 in excess of these insured amounts.

The Company's principal market concentration of risk is related to its limited distribution channels. Two customers accounted for approximately 37% of revenues for the twelve months ended December 31, 2011, including one customer who represented 19% and another customer which represented 18% of total revenue. The Company's accounts receivable are derived from customers primarily located in the United States of America. Two customers accounted for 43% of total accounts receivable as of December 31, 2011, including one customer who represented 33% and another customer representing 10% of total accounts receivable.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Accounts Receivable

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

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing receivables. The Company determines the allowance based on factors such as historical collection experience, customer's current creditworthiness, customer concentration, age of accounts receivable balance and general economic conditions that may affect the customer's ability to pay. As of December 31, 2011, and 2010, the Company has $19,500 and $21,600, respectively, in the allowance for doubtful accounts. Actual customer collections could differ from estimates. The approximate provision during the year ended December 31, 2011 was $57,900, and the charge-offs during the same period were approximately $60,000.

Inventories

Inventories at December 31, 2011, are valued at the lower of actual cost or market, using the first-in, first-out (FIFO) method. Work in process is calculated by estimating the number of units that will be successfully converted to finished goods, based upon a build-up in the stage of completion using estimated labor inputs for each stage and historical yields reduced by estimated usage for quality control testing. Idle facility expense, excessive spoilage, extra freight, and handling costs are expensed, as necessary, in cost of sales and are not capitalized into inventories. Allocation of fixed production overheads is based on the normal capacity of production facilities.

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Goodwill and intangible assets

Goodwill is tested at least annually for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets with finite useful lives are amortized into Selling, General and Administrative Expenses in the consolidated statement of Operations using the straight-line method over various periods depending upon the specific asset.

Property and equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, principally five to seven years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful lives or the life of the lease.

Impairment of long-lived assets

The Company evaluates the recoverability of its long-lived assets (finite lived intangible assets and property and equipment) whenever adverse events or changes in business climate indicate that the expected undiscounted future cash flows from the related assets may be less than previously anticipated. If the net book value of the related assets exceeds the expected undiscounted future cash flows of the assets, the carrying amount would be reduced to the present value of their expected future cash flows and an impairment loss would be recognized. There has been no impairment losses in the periods presented.

Deferred Grant Income

The Company received a Regional Economic Business Assistance ("REBA") grant in the amount of $250,000 from the State of Georgia to help the Company defray certain expenses and capital expenditures related to the Company's expansion of manufacturing activities in the State. To retain the grant monies the Company must add a certain number of full time positions and spend a certain amount on capital and operations expenditures by December 31, 2014. The Company recorded the grant monies received as Deferred Grant Income which is included in the Other Liabilities section of the balance sheet per ASC 450-30 Gain Contingencies where an existing condition, situation, or set of circumstances involving uncertainty as to possible gain will ultimately be resolved when one or more future events occur or fail to occur. A contingency that might result in a gain should not be reflected in the financial statements because to do so might be to recognize the gain before its realization. As part of the transaction, the Company sold and is leasing back $250,000 of the assets from the State for $100 payable at the time the performance standards are achieved or at the termination date of the lease whichever is earlier. Once the Company has met the headcount and expenditure goals of the project the Company shall notify the State and pay the fixed rent amount of $100 at which time ownership of the equipment will transfer back to the Company. The Company also entered into a Performance & Accountability Agreement with the State of Georgia which defines the performance standard that if the Company fails to reach by no later than December 31, 2014, the Company shall repay a portion of the Grant amount.

Debt Instruments with Detachable Warrants and Beneficial Conversion Features

According to ASC-470 Debt Instruments with Detachable Warrants, proceeds from the sale of debt instruments with stock purchase warrants (detachable call options) shall be allocated to the two elements based upon the relative fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. The portion of the proceeds so allocated to the warrants shall be accounted for as paid-in capital. The remainder of the proceeds shall be allocated to the debt instrument portion of the transaction. Also, the embedded beneficial conversion feature present in the convertible instrument shall be recognized separately at issuance by allocating a portion of the proceeds

equal to the intrinsic value of that feature to additional paid-in capital.

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Revenue Recognition

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

Research and development costs

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

Income taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that included the enactment date. Valuation allowances are recorded for deferred tax assets when the recoverability of such assets is not deemed more likely than not.

Share-based compensation

The Company follows the provisions of ASC topic 718 "Compensation — Stock compensation" which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (options and warrants). All awards are amortized on a straight-line basis over their vesting terms into Selling, General and Administrative Expenses in the consolidated Statements of Operations.

Fair value of financial instruments

The carrying value of accounts payable and accrued expenses approximate their fair value due to the short-term nature of these liabilities. The fair value of our short term and long term convertible debt approximates $5,169,000 which represents the face value less the unamortized discount of any beneficial conversion feature plus accrued but unpaid interest at December 31, 2011. Included in other long term assets is the fair value of warrants issued in conjunction with placement fees on the convertible senior secured promissory notes of approximately $15,000 as of December 31, 2011.

Fair Value Measurements

The Company follows the authoritative guidance on fair value measurements and disclosures, with respect to assets and liabilities that are measured at fair value on both a recurring and nonrecurring basis. Under this guidance, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in

an orderly transaction between market participants as of the measurement date. The authoritative guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy is broken down into three levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement). Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. The lowest priority is Level 3, which are unobservable inputs. We analyze all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities From Equity" and ASC 815, "Derivatives and Hedging."

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Net loss per share

Basic net loss per common share is computed using the weighted-average number of common shares outstanding during the period.

For all periods presented, diluted net loss per share is the same as basic net loss per share, as the inclusion of equivalent shares from outstanding common stock options, warrants, and convertible debt would be anti-dilutive.

The following table sets forth the computation of basic and diluted net loss per share for the fiscal years ended December 31, 2011 and 2010:

	Year ended December 31,	
	2011	2010
Net loss	$ (10,193,986)	$ (11,419,753)
Denominator for basic earnings per share - weighted average shares	72,450,337	59,138,357
Effect of dilutive securities: Stock options and warrants outstanding and convertible debt (a)	—	—
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	72,450,337	59,138,357
Loss per common share - basic and diluted	$ (0.14)	$ (0.19)

(a) Securities outstanding that were excluded from the computation, prior to the use of the treasury stock method, because they would have been anti-dilutive are as follows:

	December 31, 2011	December 31, 2010
Outstanding Stock Options	10,333,583	8,257,650
Outstanding Warrants	9,388,817	6,003,924
Convertible Debt, promissory notes	5,007,732	403,432
Convertible Line of Credit with Related Party	1,342,726	—
Convertible Debt, Acquisition	1,299,315	—
	27,372,173	14,665,006

(*) The table above excludes all securities with contingencies including the earnout liability and contingent warrants.

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Recently adopted accounting pronouncements

In December 2010, the FASB issued Accounting Standards Update (ASU) 2010-28: Intangibles — Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (Topic 350). The amendments to the Codification in this update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. Goodwill of a reporting unit is required to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This update is effective starting in the first quarter of 2011 with early adoption not permitted. Adoption of this update had no impact on our financial statements.

In December 2010, the FASB issued ASU 2010-29: Business Combinations: Disclosure of Supplementary Pro Forma Information for Business Combinations (Topic 805). The amendments to the Codification in this ASU apply to any public entity that enters into business combination that are material on an individual or aggregate basis and specify that the entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning in January 2011 with early adoption permitted. We adopted this update for the acquisition completed in 2011.

Recently Issued Accounting Pronouncements Not Yet Adopted

In September 2011, the FASB issued ASU Update No. 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment. The amendment simplifies how entities test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance under Topic 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and early adoption is permitted. Its adoption is not expected to significantly impact the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments to the Codification in this ASU will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011. Because this ASU impacts presentation only, it will have no effect on our financial condition, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"). The amendments to the Codification in this ASU will provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This guidance is effective for the Company beginning on January 1, 2012. Its adoption is not expected to significantly impact the Company's consolidated financial statements.

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3. Liquidity and management's plans

The Company emerged from being a development stage company in 2010. Planned principal operations have commenced, but revenue has not been significant enough to fund ongoing operations. The Company's cash requirements for the twelve months ended December 31, 2011 arose out of general working capital needs and the acquisition of Surgical Biologics. The Company funded its cash requirements primarily through a combination of debt and equity financings. As of December 31, 2011, the Company had approximately $4,112,000 of cash and cash equivalents. The Company reported total current assets of approximately $6,882,000 and current liabilities payable in cash of approximately $4,732,000 after adjusting for the short term earn-out liability payable in MiMedx common stock in the second quarter of 2012. Also included in current liabilities is a convertible line of credit with a related party for approximately $1,296,000 which is due on December 31, 2012 which can be extended for an additional 12 months by paying a fee of five percent of the amount due or $65,000. The Company believes that its cash and cash equivalents and anticipated cash from operations will enable the Company to meet its operational liquidity needs, fund its planned investing activities and pay its debt when due for the next twelve months.

4. Acquisition of Surgical Biologics, LLC

On December 21, 2010, we entered into an Agreement and Plan of Merger ("the Merger Agreement") with Membrane Products Holdings, LLC and OnRamp Capital Investments, LLC, the owners of Surgical Biologics, LLC ("Surgical Biologics"), a privately held company headquartered in Kennesaw, Georgia. This transaction closed on January 5, 2011 and as a result we acquired all of the outstanding shares of Surgical Biologics in exchange for $500,000 cash, a total of $1,250,000 in 4% Convertible Secured Promissory Notes, and $7,087,500 in stock, represented by 5,250,000 shares of our common stock (525,000 of which were held in escrow for the purpose of securing the indemnification obligations outlined in the Merger Agreement). Contingent consideration may be payable in a formula determined by sales and certain expenses for the years 2011 and 2012. The contingent consideration was valued at $7,404,700 and is shown in the schedule below as fair value of earn-out. We completed the acquisition of Surgical Biologics in an effort to extend our biomaterials product lines. As of December 31, 2011, the Company evaluated the contingent liability based on operating results for the year, and adjusted the earn-out liability to $7,410,503. The adjustment of approximately $5,800 is included in Selling, General & Administrative expenses for the year ended December 31, 2011.

In total, the 4% Convertible Promissory Notes are convertible into up to 1,250,000 shares of the Company's common stock at $1.00 per share (a) at any time upon the election of the holder of the Convertible Notes; or (b) at the election of the Company, at any such time as the closing price per share of the Company's common stock (as reported by the OTCBB or on any national securities exchange on which the Company's shares may be listed, as the case may be) closes at no less than $1.75 per share for not less than 20 consecutive trading days in any period prior to the maturity date. If converted, the Common Stock will be available to be sold following satisfaction of the applicable conditions as set forth in Rule 144. The 4% Convertible Promissory Notes mature in eighteen (18) months and earn interest at 4% per annum on the outstanding principal amount payable in cash on the maturity date or convertible into shares of common stock of the Company as provided for above. The 4% Convertible Promissory Notes are secured by a security interest in the Intellectual Property, including the Patents and know-how and trade secrets related thereto, owned by, or exclusively licensed to, Surgical Biologics, LLC.

The Company has evaluated the 4% Convertible Promissory Notes for accounting purposes under GAAP and has determined that the conversion feature meets the conventional-convertible exemption and, accordingly, bifurcation and fair-value measurement of the conversion feature is not required. We are required to re-evaluate this conclusion upon each financial statement closing date while the 4% Convertible Promissory Notes are outstanding. Notwithstanding, the 4% Convertible Promissory Notes were issued with a beneficial conversion feature having an intrinsic value of $437,500. The intrinsic value of the beneficial conversion feature was determined by comparing the

contracted conversion price to the fair value of the common on the date the respective 4% Convertible Promissory Notes were issued. A beneficial conversion feature only exists when the embedded conversion feature is “in-the-money” at the commitment date.

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As a result of the beneficial conversion feature, the 4% Convertible Promissory Notes were recorded net of a discount of $437,500 related to the beneficial conversion feature, the offset of which is recorded in paid-in capital, and the discount will be amortized through periodic charges to interest expense over the tem of the 4% Convertible Notes using the effective interest method.

The contingent consideration which was valued at $7,404,700 was classified as a liability. The Company has evaluated the contingent consideration for accounting purposes under GAAP and has determined that the contingent consideration is within the scope of ASC 480 Distinguishing Liabilities from Equity whereby a financial instrument other than an outstanding share, that embodies a conditional obligation that the issuer may settle by issuing a variable number of its equity shares, shall be classified as a liability if, at inception, the monetary value of the obligation is based solely or predominantly on variations in something other than the fair value of the issuer’s equity shares.

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The actual purchase price was based on cash paid, the fair value of our stock on the date of the Surgical Biologics acquisition, and direct costs associated with the combination. The actual purchase price was allocated as follows:

Value of 5,250,000 shares issued at $1.35 per share	$	7,087,500
Cash paid at closing		350,000
Cash retained for working capital		150,000
Assumed Debt		182,777
Convertible Secured Promissory Note		1,250,000
Fair value of earn-out		7,404,700
Total fair value of purchase price	$	16,424,977
Assets purchased:		
Tangible assets:		
Debt-free working capital	$	671,880
Other assets, net		385
Property, plant and equipment		72,866
		745,131
Intangible assets:		
Customer relationships		3,520,000
Supplier relationships		241,000
Patents and know-how		5,530,000
Trade names and trademarks		1,008,000
In-process research and development – liquid		2,160,000
In-process research and development – other		25,000
Licenses and permits		13,000
		12,497,000
Goodwill		3,182,846
Total Assets Purchased	$	16,424,977

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Working capital and other assets were composed of the following:

Working capital:		
Cash	$	33,583
Prepaid Expenses		2,738
Accounts Receivable		181,087
License Receivable		340,000
Inventory		347,106
Accounts payable and accrued expenses		(196,101)
Deferred rent and customer deposits		(36,533)
Debt-free working capital		671,880
Current portion of debt		(62,590)
Long-term debt		(21,187)
Line of credit		(99,000)
Net working capital	$	489,103
Deposits	$	16,582
Deferred rent (non-current)		(16,197)
	$	385

The combination was accounted for as a purchase business combination as defined by FASB Topic 805 – Business Combinations. The allocation of the purchase price to the assets acquired and liabilities assumed was based on an independent valuation report obtained by us.

The values assigned to intangible assets are subject to amortization. The intangible assets were assigned the following lives for amortization purposes:

Intangible asset:	Estimated useful life (in years)
Customer relationships	14
Supplier relationships	14
Patents and know-how	14
Trade names and trademarks	indefinite
In-process research and development – liquid	indefinite
In-process research and development – other	indefinite
Licenses and permits	3

Goodwill consists of the excess of the purchase price paid over the identifiable net assets and liabilities acquired at fair value. Goodwill was determined using the residual method based on an independent appraisal of the assets and liabilities acquired in the transaction. Goodwill is tested for impairment as defined by FASB Topic 350 – Intangibles – Goodwill and Other.

Pro Forma Financial Information – Unaudited

The following unaudited Pro Forma summary financial information presents the consolidated results of operations as if the acquisition of Surgical Biologics had occurred on January 1, 2010. The Pro Forma results are shown for

illustrative purposes only and do not purport to be indicative of the results that would have been reported if the acquisition had occurred on the date indicated or indicative of the results that may occur in the future.

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Pro Forma information for the year ended December 31, 2011 and 2010 are as follows:

	Year ended December 31,	
	2011	2010
Revenues	$ 7,760,446	$ 2,996,087
Net income (loss)	$ (9,958,271)	$ (12,408,448)
(Loss) per share	$ (0.14)	$ (0.19)

The 2011 supplemental pro forma earnings for the year ended December 31, 2011, were adjusted to exclude approximately $236,000 of acquisition-related legal, audit and accounting costs. The supplemental pro forma earnings for the year ended December 31, 2010 were adjusted to include approximately $267,000 of amortization of deferred financing costs related to the $1,250,000 note payable, approximately $668,000 of amortization costs related to $9,304,000 in recorded intangible assets with defined useful lives, and approximately $236,000 of acquisition related legal, audit and accounting costs which was included in the reported Net Income for the quarter ended March 31, 2011, as a result of the acquisition. The shares outstanding used in calculating the loss per share for the 2010 periods were adjusted to include 5,250,000 shares issued as part of the purchase price and assumed issued on January 1, 2010.

5. Inventories

Inventories consisted of the following items as of December 31, 2011 and 2010:

	December 31,	
	2011	2010
Raw materials	$ 95,288	$ 61,332
Work in process	308,763	42,241
Finished goods	361,007	36,488
	$ 765,058	$ 140,061
Reserve for obsolescence	(52,456)	(28,507)
Inventory, net	$ 712,602	$ 111,554

6. Property and equipment

Property and equipment consist of the following as of December 31, 2011 and 2010:

	December 31,	
	2011	2010
Leasehold improvements	$ 925,086	$ 793,900
Lab and clean room equipment	931,432	506,917
Furniture and equipment	827,366	848,843
	2,683,884	2,149,660
Less accumulated depreciation	(1,814,473)	(1,392,704)
	$ 869,411	$ 756,956

(*) The table above includes adjustments for asset retirements during the year ended December 31, 2011, of fully depreciated equipment of approximately $25,000.

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7. Intangible assets and royalty agreement

Intangible assets activity is summarized as follows:

		December 31, 2011			December 31	
	Weighted Average Amortization Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumula Amortizat
Intangible assets subject to amortization:						
License-Shriners Hsp for Children & USF Research (a)	10 years	$996,000	$(488,033)	$507,967	$996,000	$(388,43
License - SaluMedica LLC Spine Repair (b)	10 years	2,399,000	(1,313,573)	1,085,427	2,399,000	(1,017,5
License - Polyvinyl Alcohol Cryogel (c)	10 years	2,667,000	(998,932)	1,668,068	2,667,000	(726,61
Customer Relationships (d)	14 years	3,520,000	(251,429)	3,268,571	—	—
Supplier Relationships (d)	14 years	241,000	(17,215)	223,785	—	—
Patents & Know-How (d)	14 years	5,530,000	(395,000)	5,135,000	—	—
Licenses/Permits (d)	3 years	13,000	(4,333)	8,667	—	—
		15,366,000	(3,468,515)	11,897,485	6,062,000	(2,132,6
Trade Names/Trademarks (d)	indefinite	1,008,000	—	1,008,000	—	—
In-process Research & Development-Liquid (d)	indefinite	2,160,000	—	2,160,000	—	—
In-process Research & Development-Other (d)	indefinite	25,000	—	25,000	—	—
		$18,559,000	$(3,468,515)	$15,090,485	$6,062,000	$(2,132,6

(a) On January 29, 2007, the Company acquired a license from Shriner's Hospitals for Children and University of South Florida Research Foundation, Inc. which is further discussed in Note 1. The acquisition price of this license was a one-time fee of $100,000 and 1,120,000 shares of common stock valued at $896,000 (based upon the estimated fair value of the common stock on the transaction date). Within thirty days after the receipt by the Company of approval by the FDA allowing the sale of the first licensed product, the Company is required to pay an additional $200,000 to the licensor. This amount is not recorded as a liability as of December 31, 2009 or 2010, based on its contingent nature. The Company will also be required to pay a royalty of 3% on all commercial sales revenue of the licensed products.

(b) License from SaluMedica, LLC (SaluMedica) for the use of certain developed technologies related to spine repair. This license was acquired through the acquisition of SpineMedica Corp.

(c) On March 31, 2008, the Company entered into a license agreement for the use of certain developed technologies related to surgical sheets made of polyvinyl alcohol cryogel. The acquisition price of the asset was 400,000 shares of common stock valued at $2,596,000 (based upon the closing price of the common stock on the transaction date). The agreement also provides for the issuance of an additional 600,000 shares upon the Company meeting certain milestones related to future sales. On December 31, 2009 the Company completed the sale of its first commercial product and met its first milestone under this agreement. As a result the Company issued 100,000 shares of common stock to the licensor valued at $71,000. At December 31, 2011 or 2010, there are no additional amounts accrued for this obligation due to its contingent nature.

(d)

On January 5, 2011, the Company acquired the equity interests of Surgical Biologics, LLC which is further discussed in Notes 1 and 4. An appraisal of the fair value of certain identified intangible assets of Surgical Biologics acquired by the Company was performed in accordance with ASC 805 as of the date of acquisition.

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Expected future amortization of intangible assets is as follows:

Year ending December 31,	Estimated Amortization Expense
2012	$ 1,335,909
2013	1,335,909
2014	1,331,575
2015	1,225,337
2016	1,024,843
Thereafter	5,643,912
	$ 11,897,485

8. Contingent Consideration

The Agreement and Plan of Merger between the Company and the former owners of Surgical Biologics ("the Merger") dated January 5, 2011 involves the potential for the payment of future contingent consideration in MiMedx common stock. Payment of the additional consideration is contingent on the acquired company reaching sixty percent (60%) of the excess of the amniotic tissue based gross revenues in calendar year 2011 over gross revenues in calendar year 2010 minus any FDA approval costs. The payment shall be made as the aggregate number of shares of MiMedx Common Stock per a specified formula in the Agreement and Plan of Merger. In addition the Company shall deliver to the former owners of Surgical Biologics an aggregate number of shares of the Company equal to thirty percent (30%) of the Gross Revenues in calendar year 2012 over the Gross Revenues in calendar year 2011 minus any FDA approval costs. The Company shall deliver the contingent consideration no later than 30 days after the Company files its Form 10-K. The contingent consideration was originally recorded at the estimated fair value of the contingent milestone payment on the acquisition date. The fair value of the contingent milestone consideration was remeasured at the estimated fair value as of December 31, 2011 with the change in fair value recognized as income or expense within Other Income (Expense) in the condensed consolidated statements of earnings. The Company measured the initial liability and remeasured the liability as of December 31, 2011, using Level 1 inputs as defined under authoritative guidance for fair value measurements. See Note 9 for further information regarding fair value measurements.

At December 31, 2011, the fair value of the contingent consideration tied to 2011 revenue was calculated to be approximately $3,185,000 and the liability adjusted and recorded as a current liability in the consolidated balance sheet and is due to be paid in MiMedx common stock not more than 30 days following the filing of our Form 10-K. The estimated maximum potential amount of undiscounted future contingent consideration tied to revenue for calendar year 2012 was approximately $4,225,000 and was recorded in the non-current liability section of the consolidated balance sheet.

9. Debt

3% Convertible Senior Secured Promissory Notes:

In April 2009, the Company commenced a private placement to sell 3% Convertible Senior Secured Promissory Notes (the "Senior Notes") with a 3-year maturity to accredited investors. The Company completed the offering on June 17, 2009, and received aggregate proceeds of $3,472,000, representing the face value of the Senior Notes. The aggregate proceeds include $250,000 of Senior Notes sold to the Chairman of the Board, President and CEO, and $150,000 of Senior Notes sold to one other director.

In total, the Senior Notes were convertible into up to 6,944,000 shares of the Company's common stock at $.50 per share (a) at any time upon the election of the holder of the Senior Notes; (b) automatically immediately prior to the closing of the sale of all or substantially all of the assets or more than 50% of the equity securities of the Company by way of a merger transaction or otherwise which would yield a price per share of not less than $.50; or (c) at the election of the Company, at such time as the closing price per share of the Company's common stock (as reported by the OTCBB or on any national securities exchange on which the Company's shares may be listed) is not less than $1.50 for at least 20 consecutive trading days in any period prior to the maturity date. If converted, the common stock would be available to be sold following satisfaction of the applicable conditions set forth in Rule 144. The Senior Notes were secured by a first priority lien on all of the assets, including intellectual property, of MiMedx, Inc., excluding, however, the membership interests in SpineMedica, LLC. The Senior Notes were junior in payment and lien priority to any bank debt of the Company in an amount not to exceed $5,000,000 subsequently incurred by the Company.

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On March 31, 2010, the Company elected to exercise its right to convert the outstanding Note Payable amount, including accrued interest of $3,582,799, into common stock of the Company at a conversion price of $0.50 per share, resulting in the issuance of 7,165,599 shares of common stock. This decision was made based upon the "Trading Value Conversion" event per the terms of the Note whereby as of March 30, 2010, the trading price of the Common Stock closed at not less than $1.50 per share for not less than 20 consecutive trading days prior to the Maturity Date. Prior to this event, certain individuals had voluntarily elected to convert their Notes, valued at $35,000 with accrued interest of $196, into Common Stock resulting in the issuance of 70,393 shares of common stock. As a result of the Company's election to convert the remaining Notes, the Company was required to immediately recognize the remaining unamortized discount of $499,610 related to the beneficial conversion feature as interest expense in the statement of operations for the year ended December 31, 2010. Additionally, the $174,739 in unamortized deferred financing costs were charged against additional paid in capital.

Hybrid Debt Instrument

In October 2010, the Company and its Chairman of the Board and CEO as well as two other company directors entered into a Subscription Agreement for a 5% Convertible Promissory Note ("Subscription Agreement") and, in connection therewith, issued a 5% Convertible Promissory Note ("Note") and a Warrant to Purchase Common Stock ("Warrant"), which expires in three years.

Under the terms of the Subscription Agreement, the Chairman & CEO had agreed to advance the Company $400,000, comprised of a $150,000 Note dated October 20, 2010 and a $250,000 Note dated November 4, 2010, and the two company directors had agreed to advance $50,000 each to fund its working capital needs. Such indebtedness was evidenced by the Note, which bears interest at the rate of 5% per annum, is due and payable in full on December 31, 2010, and, at the option of the holder, is convertible into the number of shares of common stock of the Company equal to the quotient of (a) the outstanding principal amount and accrued interest of the Note as of the date of such election, divided by (b) the selling price per share, if any, of the Company's common stock pursuant to a private placement approved by the Corporation's Board of Directors on September 10, 2010, or, if there are no such sales, $1.00 per share (the "Conversion Price"). In connection with the Subscription Agreement and the Note, the Company issued one Warrant for the number of shares of common stock of the Company by dividing the aggregate amount of the advances by the Conversion Price resulting in 500,000 warrants being issued. The exercise price of the Warrant is the Conversion Price.

The issuance of the aforementioned securities was not registered in reliance on Section 4(2) of the Securities Act of 1933, as amended.

According to GAAP, proceeds from the sale of debt instruments with stock purchase warrants (detachable call options) shall be allocated to the two elements based upon the relative fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. The portion of the proceeds so allocated to the warrants shall be accounted for as paid-in capital. The remainder of the proceeds shall be allocated to the debt instrument portion of the transaction. Also, the embedded beneficial conversion feature present in the convertible instrument shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The amount of the warrants and beneficial conversion feature totaled $287,449 which has been recorded as a debt discount that will be charged to interest expense over the life of the convertible note.

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The fair value of the Warrant was determined based upon the Black-Scholes-Merton pricing model using the following underlying assumptions:

	October 20	October 21	November 4
Term	3 Years	3 Years	3 Years
Volatility	58.75%	58.77%	58.31%
Interest Rate	1.11%	1.15%	1.04%

As of December 31, 2010, the holders of the two notes with an initial face value of $50,000 each exercised the conversion option. The holder of the other two notes totaling $400,000 agreed to extend the term of the notes until February 28, 2011, at which time the holder exercised the conversion option.

Revolving Secured Line of Credit Agreement with related party

On March 31, 2011, the Company and its Chairman of the Board and CEO (“the Lender”) entered into a Subscription Agreement for a 5% Convertible Senior Secured Promissory Note (“Subscription Agreement”) and, in connection therewith, agreed to issue a 5% Convertible Senior Secured Promissory Note (“Note”) in the amount borrowed by the Company, and a First Contingent Warrant (“First Contingent Warrant”) and a Second Contingent Warrant (“Second Contingent Warrant”) to Purchase Common Stock per the terms described below. The First and Second Contingent Warrants each expire in five years; however, each is subject to automatic terminations as defined in the First Contingent Warrant and Second Contingent Warrant terms.

Under the terms of the Subscription Agreement, the Chairman & CEO agreed to issue a Revolving Secured Line of Credit Agreement (“Credit Agreement”) to the Company of up to $3,600,000 to fund its working capital needs. The first borrowing in the amount of $800,000 was on March 31, 2011, resulting in the issuance of 400,000 contingent warrants at an exercise price of $0.01 per warrant. Additional borrowings in the amount of $500,000 were drawn during the three months ended June 30, 2011, resulting in the issuance of 250,000 contingent warrants at an exercise price of $0.01 per warrant.

Per the agreement, the amount available on the Credit Agreement was reduced by the amount of funds raised through other financing activities beginning on April 1, 2011. Since April 1, 2011, the Company raised approximately $2,545,000 through a private placement. Based upon the amount borrowed under the Credit Agreement and the amount raised through the private placement, there is no additional credit available under the Credit Agreement. The Company may repay and reborrow as needed, provided there is no event of default. The initial termination date of the Credit Agreement is December 31, 2012, and the Company may elect to extend the termination date until December 31, 2013, upon payment of an extension fee. Each borrowing bears interest on the outstanding principal at a rate per annum equal to 5%. Collateral for the Credit Agreement includes (i) all of the Company’s intellectual property with the exception of intellectual property owned by Surgical Biologics, LLC, and (ii) all accessions to, substitutions for and replacements, products and proceeds thereof, as more particularly set forth in the Security and Intercreditor Agreement.

At the option of the holder, the Note is convertible into the number of shares of common stock of the Company equal to the quotient of the outstanding principal amount and accrued interest of the Note as of the date of such election divided by $1.00 per share.

The Contingent Warrants provide for the following:

First Contingent Warrant – upon borrowing under the Note, the Company shall issue to the Lender a warrant to purchase 25% of the shares of Common Stock that would be issuable upon conversion of the outstanding principal

balance of the Note immediately after borrowing, less the aggregate number of shares of Common Stock subject to all First Contingent Warrants previously issued to Lender, at an exercise price of $0.01 per share. Provided that such First Contingent Warrant shall only be exercisable if the Company's Gross Revenues as reported in the Company's Audited Financial Statements for the year ended December 31, 2011, do not equal or exceed $11,500,000, and further provided that such First Warrant shall be null and void in the event that, prior to the date of issuance of such Audited Financial Statements (the "First Measurement Date"), the closing trading price of the Stock is at least $1.50 per share for ten or more consecutive trading days;

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Second Contingent Warrant – upon borrowing under the Note, the Company shall issue to the Lender an additional warrant to purchase 25% of the shares of Common Stock that would be issuable upon conversion of the outstanding principal balance of the Note immediately after borrowing, less the aggregate number of shares of Common Stock subject to all Second Contingent Warrants previously issued to Lender, at an exercise price of $0.01 per share, provided that such Second Contingent Warrant shall only be exercisable if the Company's Gross Revenues as reported in the Company's Audited Financial Statements for the year ended December 31, 2012, do not equal or exceed $31,150,000, and further provided that such Second Contingent Warrant shall be null and void in the event that, between the First Measurement Date and the date of issuance of such Audited Financial Statements for the year ended December 31, 2012, (the "Second Measurement Date"), the closing trading price of the Stock is at least $1.75 for ten or more consecutive trading days. The First Contingent Warrant and the Second Contingent Warrant are hereinafter referred to, collectively, as the "Contingent Warrants".

As of December 31, 2011, the Company has issued 650,000 warrants under the Secured Line of Credit Agreement, based on the borrowing of $1,300,000 under the agreement. The issuance of the aforementioned securities was not registered in reliance on Section 4(2) of the Securities Act of 1933, as amended.

The contingent warrants have not been included in our earnings per share calculation per the guidance in ASC 260-10-45-13 Earnings per share: Treatment of Contingently Issuable Shares in Weighted-Average Shares Outstanding which states that shares issuable for little or no cash consideration upon the satisfaction of certain conditions (contingently issuable shares) shall be considered outstanding common shares and included in the computation of basic EPS as of the date that all necessary conditions have been satisfied (in essence, when issuance of the shares is no longer contingent).

Senior Secured Promissory Notes

From December 27 to December 31, 2011, the Company sold 5% Convertible Senior Secured Promissory Notes (the "Notes") to individual accredited investors for aggregate proceeds of $5,000,000. The aggregate proceeds included $500,000 of Notes sold to the Company's Chairman of the Board and CEO, who, as reported on Form 8-K filed with the Commission on October 31, 2011, had committed to lend the Company up to $1,500,000, to the extent other lenders did not subscribe to the Company's debt offering. The terms of those advances were subject to amendment as authorized by the Company's Board of Directors to be consistent with the final terms of the Company's debt offering.

In total, the principal of the Notes is convertible into up to 5,000,000 shares of common stock of the Company ("Common Stock") at $1.00 per share at any time upon the election of the holder of the note. The Notes mature on December 31, 2013, and bear interest at 5% per annum on the outstanding principal amount payable in cash on a quarterly basis, with all unpaid interest being due and payable on maturity. Unless the Company has repaid the applicable lender's Notes in full prior to December 31, 2012, the Company must pay to each lender an additional interest payment in the amount of five percent (5%) of the aggregate outstanding principal amount of such lender's Notes as of December 31, 2012. At the election of the holder, unpaid interest is convertible into shares of Common Stock at $1.00 per share. Common Stock issued upon conversion of the Notes is available to be sold following satisfaction of the applicable conditions set forth in Rule 144.

The Notes are secured by a first priority lien in all of the patents and other intellectual property owned by the Company and its subsidiaries, provided that until the Convertible Secured Promissory Notes in the principal sum of $1,250,000 issued January 5, 2011, in connection with the acquisition of Surgical Biologics, LLC, are paid in full, (i) the patents and other intellectual property owned by Surgical Biologics, LLC, and (ii) all accessions to, substitutions for and replacements, products and proceeds thereof, are excluded from the collateral. The maturity of the Notes may be accelerated upon the occurrence of certain Events of Default as set forth in the Notes. The lien is at an equal rate for all note holders in payment and lien priority with the notes outstanding under the Company's Revolving Line of

Credit Agreement dated March 31, 2011, (the "Prior Notes"), all of which are held by the Company's Chairman & CEO. In order to effectuate that, to conform the description of the collateral and Events of Default in the Prior Notes to the description of the collateral and Events of Default in the Notes, and to clarify certain adjustments that would be applicable in the event of a stock split, stock dividend or similar event, the Amended and Restated Security and Intercreditor Agreement executed by the Company's Chairman & CEO in connection with the Notes on December 27, 2011, superseded the Security and Intercreditor Agreement that was originally executed in connection with the Prior Notes and, on January 3, 2012, the parties also executed an amendment to certain of the other documents executed in connection with the Prior Notes.

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Under the terms of the offering, each lender received a warrant (the "Conversion Warrant") to purchase that number of shares of Common Stock equal to the number of shares of Common Stock that would be issuable upon conversion of the principal of such lender's Note, at an exercise price of $1.00 per share, provided that such Conversion Warrant shall only be exercisable for the number of shares of Common Stock that would have been issued upon conversion of any portion of the principal of the lender's Note that is, in fact, prepaid prior to maturity of the Notes. The maximum number of shares of Common Stock issuable upon exercise of the Conversion Warrants is 5,000,000 shares. The Conversion Warrant expires on December 31, 2013. The shares of Common Stock issuable upon exercise of the Conversion Warrant do not carry registration rights. The Conversion Warrant must be exercised for cash.

Additionally, the Company issued to each lender a warrant (the "First Contingent Warrant") to purchase that number of shares of Common Stock equal to 25% of the shares of Common Stock that would be issuable upon conversion of the principal of such lender's Note, at an exercise price of $0.01 per share, provided that such First Contingent Warrant shall only be exercisable if the Company's gross revenues, as reported in the Company's audited financial statements for the year ended December 31, 2011, do not equal or exceed $11,500,000. The First Contingent Warrants are considered vested as of December 31, 2011, as the Company's gross revenues did not equal or exceed $11,500,000. The Company also issued to each lender an additional warrant (the "Second Contingent Warrant") to purchase that number of shares of Common Stock equal to 25% of the shares of Common Stock that would be issuable upon conversion of the principal of such lender's Note at an exercise price of $0.01 per share, provided that such Second Contingent Warrant shall only be exercisable if the Company's gross revenues, as reported in the Company's audited financial statements for the year ended December 31, 2012, do not equal or exceed $31,150,000, and further provided that such Second Contingent Warrant shall be null and void in the event that, between the date of issuance of the Company's audited financial statements for the year ended December 31, 2011, (the "First Measurement Date") and the date of issuance of such audited financial statements for the year ended December 31, 2012, (the "Second Measurement Date"), the closing trading price of the Common Stock is at least $1.75 for ten or more consecutive trading days. The First Contingent Warrant and the Second Contingent Warrant are hereinafter referred to, collectively, as the "Contingent Warrants". The maximum number of shares of Common Stock issuable upon exercise of the Contingent Warrants is 2,500,000 shares. The total number of exercisable warrants is 1,250,000 shares. The Contingent Warrants have a term of five years from the date of issuance. The shares of Common Stock issuable upon exercise of the Contingent Warrants do not carry registration rights. The Contingent Warrants may be exercised on a "cashless" basis.

In the event of a change in control transaction on or prior to the First Measurement Date, then the Contingent Warrants shall be exercisable immediately prior to the closing of such change in control transaction.

In the event (i) of a change in control transaction after the First Measurement Date and on or prior to the Second Measurement Date and (ii) the per share value of the consideration received by the holders of Common Stock in such change in control transaction is at least $1.75, the Second Contingent Warrant shall be null and void. If the value of the per share consideration received by the holders of Common Stock in such transaction is less than $1.75, the Second Contingent Warrant shall be exercisable immediately prior to the closing of such change in control transaction.

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According to GAAP, proceeds from the sale of debt instruments with stock purchase warrants (detachable call options) shall be allocated to the two elements based upon the relative fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. The portion of the proceeds so allocated to the warrants shall be accounted for as paid-in capital. The remainder of the proceeds shall be allocated to the debt instrument portion of the transaction. Also, the embedded beneficial conversion feature present in the convertible instrument shall be recognized separately at issuance by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The amount of the warrants (i.e. the exercisable First Contingent Warrants) and beneficial conversion feature totaled $2,278,052 which has been recorded as a debt discount that will be charged to interest expense using the effective interest rate over the life of the convertible note.

The First Contingent Warrants that have vested are included in Note 2 Significant accounting policies – Net Loss Per Share footnote (a) table Outstanding Warrants as of December 31, 2011. The Second Contingent Warrants have not been included in our earnings per share calculation per the guidance in ASC 260-10-45-13 Earnings per share: Treatment of Contingently Issuable Shares in Weighted-Average Shares Outstanding which states that shares issuable for little or no cash consideration upon the satisfaction of certain conditions (contingently issuable shares) shall be considered outstanding common shares and included in the computation of basic EPS as of the date that all necessary conditions have been satisfied (in essence, when issuance of the shares is no longer contingent).

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

10. Common Stock Placements

October 2009 Private Placement

In October 2009, the Company commenced a private placement to sell common stock and warrants. From October 30, 2009, through December 31, 2009, the Company sold 7,697,865 shares of common stock at a price of $.60 per share and received proceeds of $4,618,720. Under the terms of the offering, for every two shares of common stock purchased, the investor received a 5-year warrant to purchase one share of common stock for $1.50 (a "Warrant"). Through December 31, 2009, the Company issued a total of 3,848,933 warrants. The warrants met all the requirements for equity classification under GAAP and are recorded in stockholders' equity.

From January 1, 2010, through January 21, 2010, the Company sold an additional 1,308,332 shares of common stock and issued an additional 654,163 warrants and received proceeds of $785,000.

The Company closed the offering on January 21, 2010.

In connection with the October 2009 Private Placement, the Company entered into a registration rights agreement that provides "Piggy-Back" registration rights to each investor.

October 2010 Private Placement

In October 2010, the Company commenced a private placement to sell common stock and warrants. From October 30, 2010, through December 31, 2010, the Company sold 2,405,000 shares of common stock at a price of $1.00 per share

issued a total of 1,202,500 warrants and received net proceeds of $2,337,020. The warrants met all the requirements for equity classification under GAAP and are recorded in stockholders' equity.

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From January 1, 2011 through December 31, 2011, the Company sold an additional 3,778,321 shares of Common Stock and issued an additional 1,889,161 warrants and received net cash proceeds of approximately $3,731,000. The warrants met all the requirements for equity classification under GAAP and are recorded in stockholders' equity. The Company's Chairman and CEO invested $600,000 in the October 2010 Private Placement, receiving 300,000 warrants with an exercise price of $1.50, 150,000 First Contingent Warrants at an exercise price of $0.01 and 150,000 Second Contingent Warrants at an exercise price of $0.01 as per the aforementioned terms of the offering.

In connection with the October 2010 Private Placement, the Company entered into a registration rights agreement that provides "Piggy-Back" registration rights to each investor.

Under the terms of the offering, for each share purchased, the investor received one 5-year warrant to purchase the common stock of the Company at an exercise price of $1.50 per share. The terms of the warrant, (the "Callable Warrant") are that for every two shares of common stock purchased, the holder is issued a 5-year warrant to purchase one share of the Company's Common Stock at an exercise price of $1.50 per share. The Callable Warrant does not carry registration rights and is callable by the Company at any time after the issuance if the closing sale price of the Stock exceeds $1.75 for 15 or more consecutive trading days. Upon written notice, the Company may redeem the Callable Warrant at a price of $0.01 per share.

Additionally, the Company issued to each lender a warrant (the "First Contingent Warrant") to purchase that number of shares of Common Stock equal to 25% of the shares of Common Stock that would be issuable upon conversion of the principal of such lender's Note, at an exercise price of $0.01 per share, provided that such First Contingent Warrant shall only be exercisable if the Company's gross revenues, as reported in the Company's audited financial statements for the year ended December 31, 2011, do not equal or exceed $11,500,000 and further provided that such Warrant shall be null and void in the event that prior to issuance of such Audited Financial Statements (the "First Measurement Date") the closing trading price of the Stock is at least $1.50 per share for ten or more consecutive trading days. The Company also issued to each lender an additional warrant (the "Second Contingent Warrant") to purchase that number of shares of Common Stock equal to 25% of the shares of Common Stock that would be issuable upon conversion of the principal of such lender's Note at an exercise price of $0.01 per share, provided that such Second Contingent Warrant shall only be exercisable if the Company's gross revenues, as reported in the Company's audited financial statements for the year ended December 31, 2012, do not equal or exceed $31,150,000, and further provided that such Second Contingent Warrant shall be null and void in the event that, between the date of issuance of the Company's audited financial statements for the year ended December 31, 2011, (the "First Measurement Date") and the date of issuance of such audited financial statements for the year ended December 31, 2012, (the "Second Measurement Date"), the closing trading price of the Common Stock is at least $1.75 for ten or more consecutive trading days. The First Contingent Warrant and the Second Contingent Warrant are hereinafter referred to, collectively, as the "Contingent Warrants". The Contingent Warrants have a term of five years from the date of issuance. The shares of Common Stock issuable upon exercise of the Contingent Warrants do not carry registration rights. The Contingent Warrants may be exercised on a "cashless" basis. The contingent warrants have not been included in our earnings per share calculation per the guidance in ASC 260-10-45-13 Earnings per share: Treatment of Contingently Issuable Shares in Weighted-Average Shares Outstanding which states that shares issuable for little or no cash consideration upon the satisfaction of certain conditions (contingently issuable shares) shall be considered outstanding common shares and included in the computation of basic EPS as of the date that all necessary conditions have been satisfied (in essence, when issuance of the shares is no longer contingent). The maximum number of shares of Common Stock to be issued upon exercise of the Contingent Warrants is 3,091,661 shares.

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11. Stockholders' equity

Stock incentive plan

The Company has three share-based compensation plans, the MiMedx Group, Inc. Assumed 2006 Stock Incentive Plan (the "2006 Plan"), the MiMedx Inc. 2007 Assumed Stock Plan (the "Assumed 2007 Plan") and the MiMedx Group Inc. Amended and Restated Assumed 2005 Stock Plan (the "Assumed 2005 Plan") which provide for the granting of qualified incentive and non-qualified stock options, stock appreciation awards and restricted stock awards to employees, directors, consultants and advisors. The awards are subject to a vesting schedule as set forth in each individual agreement. The Company intends to use only the 2006 Plan to make future grants. The number of assumed options under the Assumed 2005 Plan and Assumed 2007 Plan outstanding at December 31, 2011, totaled 375,000 and the maximum number of shares of common stock which can be issued under the 2006 Plan is 12,500,000 at December 31, 2011.

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

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	6,182,500	$ 1.10		