MIMEDX GROUP, INC.
Form 10-Q
May 14, 2012

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2012

OR

o 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 Blvd., Suite 60 Kennesaw, GA	30144
(Address of principal executive offices)	(Zip Code)

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

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 x No o

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 (§232.405 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 x No o

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 filero	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes oNo x

As of April 30, 2012, there were 80,746,672 shares outstanding of the registrant's common stock.

MIMEDX GROUP, INC.

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Forward-Looking Statements

This Form 10-Q 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.

All forward-looking statements are subject to the risks and uncertainties inherent in predicting the future. Our actual results may differ materially from those projected, stated or implied in these forward-looking statements as a result of many factors, including our critical accounting policies and risks and uncertainties related to, but not limited to, overall industry environment, delay in the introduction of products, regulatory delays, negative clinical results, and our financial condition. These and other risks and uncertainties are described in more detail in our most recent Annual Report on Form 10-K, as well as other reports that we file with the SEC.

Forward-looking statements speak only as of the date they are made and should not be relied upon as representing our views as of any subsequent date. We undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur, except as required by applicable laws, and you are urged to review and consider disclosures that we make in this and other reports that we file with the SEC that discuss factors germane to our business.

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Part I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

MIMEDX GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2012 (unaudited)	December 31, 2011
Current assets:		
Cash and cash equivalents	$3,021,266	$ 4,112,326
Accounts receivable, net	2,853,552	1,891,919
Inventory, net	795,516	712,602
Prepaid expenses and other current assets	377,495	164,664
Total current assets	7,047,829	6,881,511
Property and equipment, net of accumulated depreciation of $1,924,861 and $1,814,473, respectively	805,817	869,411
Goodwill	4,040,443	4,040,443
Intangible assets, net of accumulated amortization of $3,802,492 and $3,468,515, respectively	14,756,508	15,090,485
Deposits and other long term assets	209,595	214,342
Total assets	$26,860,192	$ 27,096,192
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$1,825,765	$ 2,300,638
Deferred rent current	6,620	6,620
Convertible line of credit with related party, net of unamortized discount of $549,779 and $46,746, respectively, plus accrued interest of $58,931 and $42,726, respectively	809,152	1,295,980
Convertible debt related to acquisition, net of unamortized discount of $90,156 and $170,509, respectively, plus accrued interest of $59,836 and $49,315, respectively	969,680	1,128,806
Current portion of earn-out liability payable In MiMedx common stock	3,185,223	3,185,223
Total current liabilities	6,796,440	7,917,267
Earn-out liability payable in MiMedx common stock, net of current portion	4,225,280	4,225,280
Convertible Senior Secured Promissory Notes, net of unamortized discount of $2,049,190 and $2,263,145, respectively, plus accrued interest of $68,518 and $7,732, respectively	3,019,328	2,744,587
Other liabilities	322,464	312,493
Total liabilities	14,363,512	15,199,627
Commitments and contingencies (Note 12)	-	-

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; 78,139,596 issued and 78,089,596 outstanding for 2012 and 74,306,895 issued and 74,256,895 outstanding for 2011	78,139	74,307
Additional paid-in capital	75,558,539	73,868,604
Treasury stock (50,000 shares at cost)	(25,000)	(25,000)
Accumulated deficit	(63,114,998)	(62,021,346)
Total stockholders' equity	12,496,680	11,896,565
Total liabilities and stockholders' equity	$ 26,860,192	$ 27,096,192

See notes to condensed consolidated financial statements

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MIMEDX GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31, 2012	2011
REVENUES:		
Net sales	$ 3,705,808	$ 1,043,487
OPERATING COSTS AND EXPENSES:		
Cost of products sold	958,855	710,117
Research and development expenses	407,072	962,224
Selling, general and administrative expenses	2,971,246	2,627,492
LOSS FROM OPERATIONS	(631,365)	(3,256,346)
OTHER INCOME (EXPENSE), net		
Financing expense associated with the debt discount recognized in connection with the senior secured promissory notes	(218,701)	-
Interest expense, net	(243,586)	(91,216)
LOSS BEFORE INCOME TAXES	(1,093,652)	(3,347,562)
Income taxes	-	-
NET LOSS	$ (1,093,652)	$ (3,347,562)
Net loss per common share		
Basic and diluted	$ (0.01)	$ (0.05)
Shares used in computing net loss per common share		
Basic and diluted	74,872,122	70,333,476

See notes to condensed consolidated financial statements

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MIMEDX GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)

	Convertible Preferred Stock Series A Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
Balances, December 31, 2011	-	-	74,306,895	74,307	73,868,604	(25,000)	(62,021,346)	11,896,565
Employee share-based compensation expense	-	-	-	-	400,049	-	-	400,049
Other share-based compensation expense	-	-	-	-	100,936	-	-	100,936
Exercise of stock options	-	-	172,000	172	170,828	-	-	171,000
Exercise of warrants	-	-	3,357,369	3,357	319,316	-	-	322,673
Cashless exercise of warrants	-	-	136,246	136	(136)	-	-	-
Common stock issued for accrued Director fees	-	-	167,086	167	184,486	-	-	184,653
Discount on benefical conversion feature recognized on line of credit with related party	-	-	-	-	514,456	-	-	514,456
Net loss for the peiod	-	-	-	-	-	-	(1,093,652)	(1,093,652)
Balances, March 31, 2012	-	$-	78,139,596	$78,139	$75,558,539	$(25,000)	$(63,114,998)	$12,496,680

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Net loss	$ (1,093,652)	$ (3,347,562)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation	110,388	116,180
Amortization of intangible assets	333,977	333,977
Amortization of debt discount and deferred financing costs	310,478	72,918
Employee share-based compensation expense	400,049	380,373
Other share-based compensation expense	100,936	107,560
Increase (decrease) in cash resulting from changes in (net of effects of acquisition):		
Accounts receivable	(961,633)	150,365
Inventory	(82,914)	(111,983)
Prepaid expenses and other current assets	(212,831)	(155,025)
Accounts payable and accrued expenses	(352,720)	641,882
Accrued interest	150,012	15,383
Other liabilities	9,971	6,088
Net cash flows from operating activities	(1,287,939)	(1,789,844)
Cash flows from investing activities:		
Purchases of equipment	(46,794)	(111,927)
Cash paid for acquisition, net of cash aquired of $33,583	-	(316,417)
Net cash flows from investing activities	(46,794)	(428,344)
Cash flows from financing activities:		
Proceeds from exercise of warrants	322,673	-
Proceeds from exercise of stock options	171,000	-
Repayment of Convertible Debt related to acquisition	(250,000)	-
Proceeds from Line of Credit with related party	-	800,000
Repayment of Line of Credit	-	(99,000)
Repayment of Note Payable	-	(15,376)
Proceeds from sale of common stock and warrants and common stock with registration rights, net	-	1,212,175
Net cash flows from financing activities	243,673	1,897,799
Net change in cash	(1,091,060)	(320,389)
Cash, beginning of period	4,112,326	1,340,922
Cash, end of period	$ 3,021,266	$ 1,020,533
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,435	$ 3,239
Cash paid for income taxes	$ -	$ -

Supplemental disclosure of non-cash financing activity:

During the three months ended March 31, 2012:

* the Company issued 167,086 shares of stock valued at $184,653 for accrued Director's fees

* the Company issued 136,246 shares of stock for cashless exercise of warrants

* the Company recognized $4,747 in deferred financing costs related to placement agent warrants issued in conjunction with the convertible Senior Promissory Notes; the deferred financing costs are recorded in other long term assets

* the Company recognized a beneficial conversion feature valued at $514,456 related to the vested contingent warrants on the line of credit with related party

During the three months ended March 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 in conjunction with its acquisition of Surgical Biologics, LLC

* the Company recognized a beneficial conversion feature valued at $437,500 related to the convertible debt of $1,250,000 issued with regard to its acquisition of Surgical Biologics See notes to condensed consolidated financial statements

See notes to condensed consolidated financial statements

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MIMEDX GROUP, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations for the periods presented have been included. Operating results for the three months ended March 31, 2012 and 2011, are not necessarily indicative of the results that may be expected for the fiscal year. The balance sheet at December 31, 2011, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

You should read these condensed consolidated financial statements together with the historical consolidated financial statements of the Company for the year ended December 31, 2011 included in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission ("SEC") on March 30, 2012.

The Company operates in one business segment, Biomaterials, which includes the design, manufacture, and marketing of products and amnion tissue processing for a variety of surgical applications using the Company's proprietary biomaterials—CollaFix™, HydroFix®, EpiFix® and AmnioFix®.

2. Significant accounting policies

Please see Note 2 to our Consolidated Financial Statements included in the Company's Form 10-K for the fiscal year ended December 31, 2011, for a description of all significant accounting policies.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year financial statement presentation.

Use of estimates

The preparation of financial statements in conformity with 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.

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. The Company has $24,000 and $20,000 in the allowance for doubtful accounts as of March 31, 2012, and December 31, 2011, respectively. Actual customer collections could differ from estimates. The approximate provision during the three months ended March 31, 2012 was $4,000, and there were no charge-offs during the same period.

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Inventories

Inventories 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.

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 condensed consolidated statements of operations using the straight-line method over various periods depending upon the specific asset.

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.

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. The Company recorded approximately $39,000 and $3,000 for net sales returns provisions for the three months ended March 31, 2012 and 2011, respectively.

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 $4,798,000 which represents the face value less the unamortized discount of any beneficial conversion feature plus accrued but unpaid interest at March 31, 2012. The fair value of warrants issued in conjunction with placement fees approximates $13,000 which represents the face value less the unamortized discount of any beneficial conversion feature at March 31, 2012.

Net loss per share

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

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The following table sets forth the computation of basic and diluted net loss per share:

	Three months ended March 31, 2012	2011
Net loss	$ (1,093,652)	$ (3,347,562)
Denominator for basic earnings per share - weighted average shares	74,872,122	70,333,476
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	74,872,122	70,333,476
Loss per common share - basic and diluted	$ (0.01)	$ (0.05)

(a) Securities outstanding that were excluded from the computation, because they would have been anti-dilutive are as follows:

	Three months ended March 31, 2012	2011
Outstanding Stock Options	12,517,000	9,778,000
Outstanding Warrants	7,891,567	6,813,644
Convertible Debt, promissory notes	5,131,018	—
Convertible Line of Credit with Related Party	1,358,931	800,000
Convertible Debt, Acquisition	1,059,836	1,261,644
	27,958,352	18,653,288

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

Recent Accounting Pronouncements

Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification.

The Company considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

Goodwill

The Financial Accounting Standards Board ("FASB") issued updated authoritative guidance in September 2011 to amend previous guidance on the annual and interim testing of goodwill for impairment; the guidance became effective for MiMedx at the beginning of its 2012 fiscal year. The guidance provides entities with the option of first assessing 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. If it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would still be required. Annual impairment tests are performed by the company in the second quarter of each year. The adoption of this updated authoritative guidance did not have a significant impact on the Company’s condensed consolidated financial statements.

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Fair Value Measurements

The FASB issued updated authoritative guidance in May 2011 to amend fair value measurements and related disclosures; the guidance became effective for MiMedx at the beginning of its 2012 fiscal year. This guidance relates to a major convergence project of the FASB and the International Accounting Standards Board to improve International Financial Reporting Standards ("IFRS") and GAAP. This guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between IFRS and GAAP. The guidance also changes some fair value measurement principles and enhances disclosure requirements related to activities in Level 3 of the fair value hierarchy. The adoption of this updated authoritative guidance had no impact on the Company's condensed consolidated financial statements.

Recently issued accounting pronouncements not yet adopted:

In December 2011, the FASB issued new accounting guidance that will require entities to disclose information about instruments (including derivatives) and transactions eligible for offset in the statement of financial position or subject to an agreement similar to a master netting arrangement. These new provisions are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and should be applied retrospectively for all comparative periods presented. We do not expect this accounting standard to have an impact on our condensed consolidated financial statements.

3. Liquidity and management's plans

As of March 31, 2012, the Company had approximately $3,021,000 of cash and cash equivalents. The Company reported total current assets of approximately $7,048,000 and current liabilities payable in cash of approximately $3,611,000 after adjusting for the short term earn-out liability payable in MiMedx common stock in the second quarter of 2012. The Company believes that its anticipated cash from operations and existing cash and cash equivalents 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 initially 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. No additional adjustment was required as of March 31, 2012.

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.

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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.

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 initially 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.

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.

5. Inventories

Inventories consisted of the following items as of March 31, 2012, and December 31, 2011:

	March 31, 2012		December 31, 2011	
Raw materials	$	82,703	$	95,288

Work in process		443,072		308,763
Finished goods		323,165		361,007
	$	848,940	$	765,058
Reserve for obsolescence		(53,424)		(52,456)
Inventory, net	$	795,516	$	712,602

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6. Property and equipment

Property and equipment consist of the following as of March 31, 2012, and December 31, 2011:

	March 31, 2012	December 31, 2011
Leasehold improvements	$ 925,086	$ 925,086
Lab and clean room equipment (a)	1,470,852	1,463,144
Furniture and office equipment (a)	334,740	295,654
	2,730,678	2,683,884
Less accumulated depreciation	(1,924,861)	(1,814,473)
	$ 805,817	$ 869,411

(a) The table above includes reclassifications of production equipment previously included in the furniture and office equipment category.

7. Intangible assets and royalty agreement

Intangible assets activity is summarized as follows:

		March 31, 2012			December 31, 2011		
	Weighted Average Amortization Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization:							
License-Shriners Hsp for Children & USF Research (a)	10 years	$996,000	$(512,933)	$483,067	$996,000	$(488,033)	$507,967
License - SaluMedica LLC Spine Repair (b)	10 years	2,399,000	(1,387,577)	1,011,423	2,399,000	(1,313,573)	1,085,427
License - Polyvinyl Alcohol Cryogel (c)	10 years	2,667,000	(1,067,011)	1,599,989	2,667,000	(998,932)	1,668,068
Customer Relationships (d)	14 years	3,520,000	(314,286)	3,205,714	3,520,000	(251,429)	3,268,571
Supplier Relationships (d)	14 years	241,000	(21,518)	219,482	241,000	(17,215)	223,785
Patents & Know-How (d)	14 years	5,530,000	(493,750)	5,036,250	5,530,000	(395,000)	5,135,000
Licenses/Permits (d)	3 years	13,000	(5,417)	7,583	13,000	(4,333)	8,667
		15,366,000	(3,802,492)	11,563,508	15,366,000	(3,468,515)	11,897,485
Intangible assets not subject to amortization:							
Trade Names/Trademarks (d)	indefinite	1,008,000	—	1,008,000	1,008,000	—	1,008,000

In-process Research & Development-Liquid (d)	indefinite	2,160,000	—	2,160,000	2,160,000	—	2,160,000
In-process Research & Development-Other (d)	indefinite	25,000	—	25,000	25,000	—	25,000
		$18,559,000	$(3,802,492)	$14,756,508	$18,559,000	$(3,468,515)	$15,090,485

(a) On January 29, 2007, the Company acquired a license from Shriners Hospitals for Children and University of South Florida Research Foundation, Inc. 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 30 days after the receipt by the Company of approval by the FDA allowing the sale of the first licensed product, the Company is required to pay an additional $200,000 to the licensor. Due to its contingent nature, this amount is not recorded as a liability. The Company will also be required to pay a royalty of 3% on all commercial sales revenue from the licensed products.

(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 an additional 100,000 shares of common stock to the licensor valued at $71,000. At March 31, 2012 and 2011, there are no additional amounts accrued for this obligation due to its contingent nature.

(d) On January 5, 2011, the Company acquired Surgical Biologics, LLC. As a result, the Company recorded intangible assets for customer and supplier relationships, patents and know-how, licenses/permits, trade names and trademarks and in-process research and development.

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Estimated future amortization expense related to the March 31, 2012 net carrying amount of $11,563,508 for intangible assets subject to amortization is as follows:

Year ending December 31,	Estimated Amortization Expense
2012 (a)	$ 1,001,932
2013	1,335,909
2014	1,331,575
2015	1,225,337
2016	1,024,843
Thereafter	5,643,912
	$ 11,563,508

(a) Estimated amortization expense for the year ending December 31, 2012 includes only amortization to be recorded after March 31, 2012.

8. Debt

The following disclosures reflect a summary of our outstanding convertible securities, as well as activity related to financing transactions. The table below summarizes the Company's financing, and further details regarding each transaction are provided following the table:

	Convertible Line of Credit with Related Party	Convertible Senior Secured Promissory Note	Total
Face Value of Note	$ 1,300,000	$ 5,000,000	$6,300,000
Due date	(a) 12/31/2012	(b) 12/31/2013	
Annual Interest rate	5 %	5 %	
Contingent warrants issued at inception (c):			
First Contingent Warrants	(d) 325,000	(e) 1,250,000	1,575,000
Second Contingent Warrants	(f) 325,000	(f) 1,250,000	1,575,000
Total Contingent Warrants	650,000	2,500,000	3,150,000
Vested Warrants as of March 31, 2012:			
First Contingent Warrants	(d) (325,000)	(e) (1,250,000)	(1,575,000)
Second Contingent Warrants	—	—	—
Contingent Warrants Outstanding as of March 31, 2012 (g)			
First Contingent Warrants	—	—	—
Second Contingent Warrants	325,000	1,250,000	1,575,000
Total Contingent Warrants Outstanding as of March 31, 2012	325,000	1,250,000	1,575,000
Weighted average exercise price of warrants	$ 0.01	$ 0.01	

(a) 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 of 5% of the outstanding principle balance or $65,000.

(b) 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.

(c) The Contingent Warrants have a term of five years from the date of issuance; however each is subject to automatic terminations as defined in the First Contingent Warrant and Second Contingent Warrant terms. The shares of Common Stock issuable upon exercise of the Contingent Warrants do not carry registration rights and 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.

(d) The First Contingent Warrant, (the “First Contingent Warrant”) is issued to each investor to purchase 25% of the number of shares of Stock purchased, at an exercise price of $0.01 per share, provided that the First Contingent Warrant shall only be exercisable if the Company’s Gross Revenue 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. During the three months ended March 31, 2012, the First Contingent Warrants vested due to the Company’s Gross Revenue not exceeding $11,500,000 for the year ended December 31, 2011.

(e) The First Contingent Warrant, (the “First Contingent Warrant”) is issued to each investor to purchase 25% of the number of shares of Stock purchased, at an exercise price of $0.01 per share, provided that the First Contingent Warrant shall only be exercisable if the Company’s Gross Revenue as reported in the Company’s Audited Financial Statements for the year ended December 31, 2011, do not equal or exceed $11,500,000. During the three months ended December 31, 2011, the First Contingent warrants vested due to the Company’s Gross Revenue not exceeding $11,500,000 for the year ended December 31, 2011.

(f) The Second Contingent Warrant, (the “Second Contingent Warrant”) is issued to each investor to purchase 25% of the number of shares of Stock purchased, at an exercise price of $0.01 per share, provided that the Second Contingent Warrant shall only be exercisable if the Company’s Gross Revenue 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 Warrant shall be null and void in the event that prior to issuance of such Audited Financial Statements (the “Second Measurement Date”) the closing trading price of the Stock is at least $1.75 per share for ten or more consecutive trading days.

(g) 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).

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Convertible Line of Credit 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.

The Lender agreed to issue a Revolving Secured Line of Credit Agreement ("Credit Agreement") to the Company of $1,300,000, after reductions for funds raised through other financing activities, 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.

The Company may repay and reborrow, provided there is no event of default, as needed. 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 Lender, 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.

On February 28, 2012, 325,000 First Contingent Warrants vested to the Lender at an exercise price of $0.01 per share. The vesting of the shares resulted in an additional beneficial conversion feature which requires recognition. 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 approximately $550,000 net of previously recognized interest expense which has been recorded as a debt discount that will be charged to interest expense over the life of the convertible note.

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

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 and issued a First Contingent Warrant ("First Contingent Warrant") and a Second Contingent Warrant ("Second Contingent Warrant") to Purchase Common Stock.

The aggregate proceeds included $500,000 of Notes sold to the Company's Chairman of the Board and CEO, who 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.

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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 Line of Credit with Related Party 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.

Under the terms of the sale of the Convertible Senior Secured Promissory notes, 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.

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.

In conjunction with the sale of the Convertible Senior Secured Promissory notes, the Company incurred a placement fee of $32,800 and issued 42,400 common stock warrants to the placement agents at an exercise price of $1.09 per share. 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.

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9. Common Stock Placements

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 and received proceeds of $2,337,020 net of $67,980 in offering costs. For the nine months ended September 30, 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 $3,730,587 net of $47,733 in offering costs. 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 fifteen (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 a First Contingent Warrant ("First Contingent Warrant") and a Second Contingent Warrant ("Second Contingent Warrant") to Purchase Common Stock.

The First Contingent Warrant, (the "First Contingent Warrant") vested during the period resulting in the issuance of 1,672,742 warrants at an exercise price of $0.01 per share.

The Second Contingent Warrant, (the "Second Contingent Warrant") is issued to each investor to purchase 25% of the number of shares of Stock purchased, at an exercise price of $0.01 per share, provided that the Second Contingent Warrant shall only be exercisable if the Company's Gross Revenue 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 Warrant shall be null and void in the event that prior to issuance of such Audited Financial Statements (the "Second Measurement Date") the closing trading price of the Stock is at least $1.75 per share for ten or more consecutive trading days.

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 warrants met all the requirements for equity classification under GAAP and are recorded in stockholders' equity.

The Company's Chairman and CEO invested $1,006,664 in the October 2010 Private Placement including the investment of principal and accrued interest from the October 2010 Bridge note converted under the same terms as the Private Placement, receiving 503,332 warrants with an exercise price of $1.50, 251,666 First Contingent warrants at an exercise price of $0.01 and 251,666 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.

10. Equity

Stock Incentive Plans

The Company has three share-based compensation plans: the MiMedx Group, Inc. Assumed 2006 Stock Incentive Plan (the “2006 Plan”), the MiMedx Inc. 2007 Assumed Stock Plan (the “Assumed 2007 Plan”) and the MiMedx Group Inc. Amended and Restated Assumed 2005 Stock Plan (the “Assumed 2005 Plan”) which provide for the granting of qualified incentive and non-qualified stock options, stock appreciation awards and restricted stock awards to employees, directors, consultants and advisors. The awards are subject to a vesting schedule as set forth in each individual agreement. The Company intends to use only the 2006 Plan to make future grants. The number of assumed options under the Assumed 2005 Plan and Assumed 2007 Plan outstanding at March 31, 2012 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 March 31, 2012.

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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, 2012	10,333,583	$ 1.17		
Granted	2,593,000	$ 1.25		
Exercised	(172,000)	$ 0.99		
Forfeited or cancelled/expired	(237,583)	$ 1.17		
Outstanding at March 31, 2012	12,517,000	$ 1.19	7.6	$ 1,533,000
Vested or expected to vest at March 31, 2012	6,372,990	$ 1.16	5.9	$ 1,351,000

The intrinsic value of the options exercised during the three months ended March 31, 2012, was approximately $26,800.

Following is a summary of stock options outstanding and exercisable at March 31, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 0.50	585,000	2.6	$ 0.50	543,023	$ 0.50
$ 0.65 - $1.00	2,797,500	5.8	$ 0.78	2,615,918	$ 0.78
$ 1.04 - $1.80	8,584,500	8.9	$ 1.29	2,664,049	$ 1.42
$ 2.40	550,000	0.5	$ 2.40	550,000	$ 2.40
	12,517,000	7.6	$ 1.19	6,372,990	$ 1.16

A summary of the status of the Company’s unvested stock options follows:

Unvested Stock Options	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2012	4,333,086	$ 0.72
Granted	2,593,000	$ 0.67
Cancelled/expired	(237,583)	$ 0.65
Vested	(544,493)	$ 0.78
Unvested at March 31, 2012	6,144,010	$ 0.70

Total unrecognized compensation expense related to granted stock options at March 31, 2012, was approximately $4,448,000 and will be charged to expense through July 2015.

The fair value of options granted by the Company is estimated on the date of grant using the Black-Scholes-Merton option-pricing model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. Expected volatilities are based on historical volatility of peer companies and other factors estimated over the expected term of the options. The term of employee options granted is derived using the "simplified method" which computes expected term as the average of the sum of the vesting term plus the contract term. The term for non-employee options is generally based upon the contractual term of the option. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term or contractual term as described.

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

	Three months ended March 31, 2012	2011
Expected volatility	58.3 %	57.6 - 57.8 %
Expected life (in years)	6	6
Expected dividend yield	—	—
Risk-free interest rate	0.88 %	1.96% - 2.14 %

The weighted-average grant date fair value for options granted during the three months ended March 31, 2012 was approximately $0.67.

Warrants

The Company grants common stock warrants in connection with equity share purchases by investors as an additional incentive for providing long term equity capital to the Company and as additional compensation to consultants and advisors. The warrants are granted at negotiated prices in connection with the equity share purchases and at the market price of the common stock in other instances. The warrants have been issued for terms of five years.

Following is a summary of warrants outstanding at March 31, 2012:

	Number of Warrants	Weighted-Average Exercise Price per Warrant	Number of Contingent Warrants	Weighted-Average Exercise Price per Contingent Warrant
Warrants outstanding at January 1, 2012	9,388,817	$1.00	5,245,484	$0.01
Issued in connection with private placement of common stock	1,672,743	$0.01	(1,672,743)	$0.01
Issued in connection with line of credit with related party	325,000	$0.01	(325,000)	$0.01
Warrants exercised	(3,494,993)	$0.09	—	—
Warrants outstanding at March 31, 2012	7,891,567	$1.15	3,247,741	$0.01

Warrants may be exercised in whole or in part by:

- notice given by the holder accompanied by payment of an amount equal to the warrant exercise price multiplied by the number of warrant shares being purchased; or

- election by the holder to exchange the warrant (or portion thereof) for that number of shares equal to the product of (a) the number of shares issuable upon exercise of the warrant (or portion) and (b) a fraction, (x) the numerator of which is the market price of the shares at the time of exercise minus the warrant exercise price per share at the time of exercise and (y) the denominator of which is the market price per share at the time of exercise.

These warrants are not mandatorily redeemable, do not obligate the Company to repurchase its equity shares by transferring assets or issue a variable number of shares.

The warrants require that the Company deliver shares as part of a physical settlement or a net-share settlement, at the option of the holder, and do not provide for a net-cash settlement.

All of our warrants are classified as equity as of March 31, 2012 and December 31, 2011.

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11. Income taxes

The Company has incurred net losses since its inception and, therefore, no current income tax liabilities have been incurred for the periods presented. Due to the Company's losses, management has established a valuation allowance equal to the amount of net deferred tax assets since management cannot determine that realization of these benefits is more likely than not.

12. Contractual Commitments

The Company has entered into operating lease agreements for facility space and equipment, and employment agreements with some key employees acquired with Surgical Biologics. In addition, the Company has minimum royalty payments due in conjunction with one of its licenses. The estimated annual lease, royalty, and employment agreement expense are as follows:

12-month period ended March 31,		
2013	$	848,000
2014		231,000
Thereafter		93,000
	$	1,172,000

13. Subsequent Events

On April 30, 2012, the Company issued 2,632,576 shares of common stock valued at approximately $3,185,000 for earn-out consideration related to the acquisition of Surgical Biologics. The consideration paid in the Company's common stock was based on a formula determined by sales and certain expenses for the year ended December 31, 2011. For further discussion of the contingent consideration, see Note 4 – Acquisition of Surgical Biologics.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

MiMedx Group, Inc. ("MiMedx Group") is an integrated developer, manufacturer and marketer of patent-protected regenerative biomaterials and bioimplants 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 CollaFix™, 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.

Recent Events

On January 5, 2011, the Company acquired all of the outstanding equity interests in Surgical Biologics, LLC, for an aggregate of $16.4 million in cash, stock and assumed debt. Certain additional considerations are contingent pending certain earn-out provisions. This strategic acquisition brings together market leading know-how in amnion tissue processing technology with a global distribution network uniquely positioned to rapidly exploit significant market opportunities across multiple surgical indications.

Surgical Biologics, ("SB"), is located in Kennesaw, Georgia. Surgical Biologics develops bioimplants 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 is focused on developing technologically innovative bioimplants that offer the surgeon a variety of clinical options; allowing for greater flexibility in treatment, as well as improved surgical results.

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Surgical Biologics currently distributes tissue in several different membrane subsegments, such as ocular, dental, spine and wound care. The wound care and tissue management market in the U.S. is currently valued at approximately $7.4B, in which our products could play a strong role. The regenerative dental market is estimated at approximately $232M. The Millennium Research Group has projected the anti adhesion market to reach an estimated $500M in 2012, and the ocular market is valued at approximately $100M. Each market's sub segment has unique competitors, products and distribution methods. Amniotic membrane, as processed by SB, has unique "bio active" properties that offer benefits that most competitive products cannot offer. SB's tissues provide anti-inflammatory, anti-angiogenesis, anti-scarring and barrier properties as well as enhanced healing at the surgical site.

Surgical Biologics has developed a specialized method for the processing of amniotic membrane. This patent pending process, named Purion®, consists of unique methods which maximize yield, while minimizing manufacturing costs. The Purion® process was engineered to create an implant that is optimized for ease of use while providing the patient with the maximum assurance of safety. Surgical Biologics currently has seven patents pending that have been filed with the United States Patent Office. The patent filings consist of the intellectual property used to process tissues and/or apply the tissues in a unique manner in surgery.

The Company received the CE Mark for CollaFix® Surgical Mesh CD during the first quarter of 2012. CollaFix® Surgical Mesh CD is intended for use in general surgical procedures for reinforcement of soft tissue where weakness exists. This is the first product in the CollaFix® technology platform to receive the CE mark.

Results of Operations comparison for the Three Months Ended March 31, 2012 to the Three Months Ended March 31, 2011

Revenue

Total revenue increased approximately $2,663,000 to $3,706,000 for the three months ended March 31, 2012, as compared to $1,043,000 for the three months ended March 31, 2011. The increase in revenue as compared to the prior year is due primarily to sales of our amniotic membrane tissue. The Company experienced strong demand in the Spine, Wound Care, Ophthalmology, and Orthopedics markets.

Tissue Processing Costs and Cost of Products Sold

Cost of products as a percentage of revenue improved to 25.9% from 68.1% as compared to prior year. The improvement was due primarily to the increase in revenue. Beginning in 2012, the company decided to allocate both depreciation expense and stock compensation to each functional area. These expenses were reclassified in the prior year to maintain comparability. The amount of depreciation expense was approximately $35,000 and $27,000, and the amount of share-based compensation was $24,000 and $25,000 for the three months ended March 31, 2012 and 2011, respectively.

Personnel costs represent approximately $468,000 or 48.8% of total manufacturing, quality assurance and regulatory spending for the three months ended March 31, 2012.

Research and Development Expenses

Our research and development expenses ("R&D expenses") decreased approximately $555,000 or 57.7% to $407,000 during the three months ended March 31, 2012, compared to approximately $962,000 in the prior year. The decrease is primarily related to the closure of our Tampa research facility in mid-2011, along with decreased spending on animal studies for our CollaFix™ and HydroFix® products. Approximately $136,000, or 33.4%, of R&D expenses for the three months ended March 31, 2012 were attributable to personnel costs, compared to approximately $357,500 or

37.2% for the three months ended March 31, 2011. Development and testing costs were approximately $39,000 and $224,000 for the three months ended March 31, 2012 and 2011, respectively. This decrease of approximately $185,000 is a result of lower costs in animal studies related to our CollaFix™ and HydroFix® products. Additionally, as described above in Cost of Products Sold, beginning in 2012, we decided to allocate both depreciation expense and share-based compensation expense to other functional areas, and have reclassified prior year amounts to maintain comparability. During the three months ended March 31, 2012 and 2011, we recorded approximately $31,000 and $28,000 for depreciation expense and approximately $72,000 and $86,000 for share-based compensation expense, respectively, to research and development during the most recent quarter.