

MIMEDX GROUP, INC.
Form 10-Q
May 10, 2013

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

OR

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
(State or other jurisdiction of incorporation)

26-2792552
(I.R.S. Employer Identification Number)

60 Chastain Center Blvd., Suite 60
Kennesaw, GA
(Address of principal executive offices)

30144
(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 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 (§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 No

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):

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

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

As of April 19, 2013, there were 95,944,519 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, 2013 (unaudited) | December 31, 2012 |
|---|----------------------------------|-------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$5,725,107 | \$6,754,485 |
| Accounts receivable, net | 9,821,503 | 7,653,561 |
| Inventory, net | 3,956,339 | 3,022,784 |
| Prepaid expenses and other current assets | 1,186,417 | 657,961 |
| Total current assets | 20,689,366 | 18,088,791 |
| Property and equipment, net of accumulated depreciation of \$2,378,590 and \$2,279,840, respectively | | |
| | 1,153,667 | 1,071,625 |
| Goodwill | 4,040,443 | 4,040,443 |
| Intangible assets, net of accumulated amortization of \$5,111,352 and \$4,848,756, respectively | 11,649,153 | 11,911,749 |
| Deposits and other long term assets | 319,545 | 70,000 |
| Total assets | \$37,852,174 | \$35,182,608 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$1,056,707 | \$1,251,684 |
| Accrued compensation | 3,518,769 | 2,753,237 |
| Accrued expenses | 1,227,485 | 990,697 |
| Other current liabilities | 167,600 | 75,154 |
| Total current liabilities | 5,970,561 | 5,070,772 |
| Earn-out liability payable in MiMedx common stock | - | 5,792,330 |
| Convertible Senior Secured Promissory Notes, net | - | 4,012,442 |
| Other Liabilities | 288,438 | 299,762 |
| Total liabilities | 6,258,999 | 15,175,306 |
| Commitments and contingencies (Note 13) | | |
| Stockholders' equity: | | |
| Preferred stock; \$.001 par value; 5,000,000 shares authorized and 0 shares issued and outstanding | - | - |
| Common stock; \$.001 par value; 130,000,000 shares authorized; 95,825,353 issued and 95,775,353 outstanding for 2013 and 88,423,169 issued and 88,373,169 | 95,824 | 88,423 |

| | | |
|--|---------------|--------------|
| outstanding for 2012 | | |
| Additional paid-in capital | 102,826,481 | 89,627,601 |
| Treasury stock (50,000 shares at cost) | (25,000) | (25,000) |
| Accumulated deficit | (71,304,130) | (69,683,722) |
| Total stockholders' equity | 31,593,175 | 20,007,302 |
| Total liabilities and stockholders' equity | \$37,852,174 | \$35,182,608 |

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, | |
| | 2013 | 2012 |
| Revenues: | | |
| Net sales | \$11,556,493 | \$3,705,808 |
| Cost of sales | 1,905,020 | 958,855 |
| Gross margin | 9,651,473 | 2,746,953 |
| Operating expenses: | | |
| Research and development expenses | 1,246,757 | 407,072 |
| Selling, general and administrative expenses | 8,369,010 | 2,637,269 |
| Amortization of intangible assets | 262,596 | 333,977 |
| Operating income (loss) | (226,890) | (631,365) |
| Other income (expense), net | | |
| Amortization of debt discount | (1,328,439) | (310,477) |
| Interest expense, net | (14,804) | (151,810) |
| Income (loss) before income tax provision | (1,570,133) | (1,093,652) |
| Income tax provision | (50,275) | - |
| Net Income (loss) | \$(1,620,408) | \$(1,093,652) |
| Net income (loss) per common share - basic and diluted | \$(0.02) | \$(0.01) |
| Weighted average shares outstanding - basic and diluted | 93,128,466 | 74,872,122 |

See notes to condensed consolidated financial statements

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MIMEDX GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2013
(unaudited)

| | Convertible Preferred Stock Series A Shares | Amount | Common Stock Shares | Amount | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Total |
|--|---|--------|------------------------|----------|----------------------------------|-------------------|------------------------|--------------|
| Balance December 31, 2012 | - | \$- | 88,423,169 | \$88,423 | \$89,627,601 | \$(25,000) | \$(69,683,722) | \$20,007,302 |
| Share-based compensation expense | - | - | - | - | 984,792 | - | - | 984,792 |
| Exercise of stock options | - | - | 170,099 | 170 | 232,361 | - | - | 232,531 |
| Exercise of warrants | - | - | 785,166 | 785 | 923,839 | - | - | 924,624 |
| Common stock issued for 5% convertible note | - | - | 5,272,004 | 5,272 | 5,266,732 | - | - | 5,272,004 |
| Common stock issued for earn-out liability | - | - | 1,174,915 | 1,174 | 5,791,156 | - | - | 5,792,330 |
| Net income (loss) | - | - | - | - | - | - | (1,620,408) | (1,620,408) |
| Balance March 31, 2013 | - | \$- | 95,825,353 | \$95,824 | \$102,826,481 | \$(25,000) | \$(71,304,130) | \$31,593,175 |

See notes to condensed consolidated financial statements

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

| | Three Months Ended March 31, | |
|---|---------------------------------|---------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$(1,620,408) | \$(1,093,652) |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | |
| Depreciation | 98,751 | 110,388 |
| Amortization of intangible assets | 262,596 | 333,977 |
| Amortization of debt discount and deferred financing costs | 1,328,439 | 310,477 |
| Share-based compensation | 984,792 | 500,985 |
| Increase (decrease) in cash resulting from changes in: | | |
| Accounts receivable | (2,167,942) | (961,633) |
| Inventory | (933,555) | (82,914) |
| Prepaid expenses | (555,692) | (212,831) |
| Other assets | (249,545) | - |
| Accounts payable | (194,977) | (232,054) |
| Accrued compensation | 765,532 | 103,616 |
| Accrued expenses | 236,788 | (224,282) |
| Accrued interest | (41,641) | 150,013 |
| Other liabilities | (11,324) | 9,971 |
| Net cash flows from operating activities | (2,098,186) | (1,287,939) |
| Cash flows from investing activities: | | |
| Purchases of equipment | (73,534) | (46,794) |
| Net cash flows from investing activities | (73,534) | (46,794) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of warrants | 924,624 | 322,673 |
| Proceeds from exercise of stock options | 232,531 | 171,000 |
| Repayment of convertible debt related to acquisition | - | (250,000) |
| Payments under capital lease obligations | (14,813) | - |
| Net cash flows from financing activities | 1,142,342 | 243,673 |
| Net change in cash | (1,029,378) | (1,091,060) |
| Cash and cash equivalents, beginning of period | 6,754,485 | 4,112,326 |
| Cash and cash equivalents, end of period | \$5,725,107 | \$3,021,266 |

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, 2013 and 2012

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. Changes to GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of Accounting Standards Updates (“ASUs”) to the FASB’s Accounting Standards Codification (“ASC”). 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, 2013 and 2012, are not necessarily indicative of the results that may be expected for the fiscal year. The balance sheet at December 31, 2012, 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, 2012 included in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission (“SEC”) on March 15, 2013.

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, 2012, for a description of all significant accounting policies.

Reclassifications

Certain items previously reported in combined financial statement captions have been reclassified to conform to the current financial statement presentation. These reclassifications did not affect total assets, total liabilities, and stockholders’ equity.

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 \$76,000 and \$49,000 in the allowance for doubtful accounts as of March 31, 2013 and December 31, 2012, respectively. Actual customer collections could differ from estimates. The approximate provision during the three months ended March 31, 2013 was \$27,000 compared to \$4,000 for the three months ended March 31, 2012. There were no write – offs during the reporting periods.

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Inventories

Inventory is valued at standard cost, which approximates actual cost computed on a first-in, first-out basis, not in excess of market value. We assess the valuation of our inventory on a periodic basis and make adjustments to the value for estimated excess and obsolete inventory based on estimates about future demand. The excess balance determined by this analysis becomes the basis for our excess inventory charge. Our excess inventory review process includes analysis of sales forecasts, managing product rollovers and working with operations to maximize recovery of excess inventory.

Revenue Recognition

The Company sells its products through a combination of a direct sales force and 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. 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 \$190,000 and \$39,000 for net sales returns provisions for the three months ended March 31, 2013 and 2012, respectively, and there were approximately \$156,000 and \$0 of charges against the provision during the three months ended March 31, 2013 and 2012, respectively.

Recent Accounting Pronouncements

The Company considers the applicability and impact of all ASUs. For the three months ended March 31, 2013 and through the date of this report, all ASUs issued, effective and not yet effective, 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.

3. Liquidity and Management's Plans

As of March 31, 2013, the Company had approximately \$5,725,000 of cash and cash equivalents. The Company reported total current assets of approximately \$20,689,000 and current liabilities of approximately \$5,971,000 as of March 31, 2013. The Company believes that its anticipated cash from operating and financing activities and existing cash and cash equivalents will enable the Company to meet its operational liquidity needs, fund its planned investing activities for the next twelve months.

4. Inventories

Inventories consisted of the following items as of March 31, 2013 and December 31, 2012:

| | March 31, 2013 | December 31, 2012 |
|--------------------------|-------------------|----------------------|
| Raw materials | \$ 279,442 | \$ 233,747 |
| Work in process | \$ 2,630,888 | \$ 1,598,537 |
| Finished goods | \$ 1,230,124 | \$ 1,349,121 |
| | 4,140,454 | 3,181,405 |
| Reserve for obsolescence | \$ (184,115) | \$ (158,621) |
| Inventory, net | \$ 3,956,339 | \$ 3,022,784 |

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5. Property and Equipment

Property and equipment consist of the following as of March 31, 2013 and December 31, 2012:

| | March 31, 2013 | December 31, 2012 |
|--------------------------------|-------------------|----------------------|
| Leasehold improvements | \$ 1,129,488 | \$ 1,022,230 |
| Lab and clean room equipment | 1,887,645 | 1,887,645 |
| Furniture and office equipment | 433,314 | 431,563 |
| Construction in progress | 81,810 | 10,027 |
| | 3,532,257 | 3,351,465 |
| Less accumulated depreciation | (2,378,590) | (2,279,840) |
| | \$ 1,153,667 | \$ 1,071,625 |

6. Intangible Assets and Royalty Agreement

Intangible assets activity is summarized as follows:

| | March 31, 2013 | | | | December 31, 2012 | | | |
|--|--|----------------------------|-----------------------------|--------------------------|----------------------------|--------------------------|-----------------------------|------------|
| | Weighted Average Amortization Lives | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Impairment Adjustment | Accumulated Amortization | Ca V |
| Intangible assets subject to amortization: | | | | | | | | |
| License-Shriners Hsp for Children & USF Research (a) | 10 years | \$996,000 | \$(612,533) | \$383,467 | \$996,000 | \$— | \$(587,633) | \$400,000 |
| License - SaluMedica LLC Spine Repair (b) | 10 years | 1,547,324 | (1,547,324) | - | 2,399,000 | (851,676) | (1,547,324) | - |
| License - Polyvinyl Alcohol Cryogel (c) | 10 years | 1,720,181 | (1,255,692) | 464,489 | 2,667,000 | (946,819) | (1,223,561) | 490,000 |
| Customer Relationships (d) | 14 years | 3,520,000 | (565,714) | 2,954,286 | 3,520,000 | | (502,857) | 3,017,143 |
| Supplier Relationships (d) | 14 years | 241,000 | (38,732) | 202,268 | 241,000 | | (34,428) | 206,640 |
| Patents & Know-How (d) | 14 years | 5,530,000 | (888,750) | 4,641,250 | 5,530,000 | | (790,000) | 4,741,250 |
| Micronized Processing Know-How (d) | 14 years | 2,160,000 | (192,857) | 1,967,143 | 2,160,000 | | (154,286) | 2,005,854 |
| Licenses/Permits (d) | 3 years | 13,000 | (9,750) | 3,250 | 13,000 | | (8,667) | 4,333 |
| | | 15,727,505 | (5,111,352) | 10,616,153 | 17,526,000 | (1,798,495) | (4,848,756) | 10,616,153 |
| 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-Other | | | | | | | | |
| (d) | indefinite | 25,000 | — | 25,000 | 25,000 | — | — | 25,000 |
| | | \$16,760,505 | \$(5,111,352) | \$11,649,153 | \$18,559,000 | \$(1,798,495) | \$(4,848,756) | \$11,760,298 |

- (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. In September 2012, the cost of this license was deemed to be impaired and reduced to its fair value.
- (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 hydrogel. 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. In September 2012, the cost of the license was deemed to be impaired and reduced to its fair value. At March 31, 2013 and December 31, 2012, there are no additional amounts accrued for this obligation due to its contingent nature.

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(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.

Future Amortization Expense

Expected future amortization of intangible assets is as follows:

| Year ending December 31, | Estimated Amortization Expense |
|--------------------------|--------------------------------------|
| 2013 | \$ 787,785 |
| 2014 | 1,046,047 |
| 2015 | 1,023,992 |
| 2016 | 976,998 |
| 2017 | 886,801 |
| Thereafter | 5,894,530 |
| | \$ 10,616,153 |

(a) Estimated amortization expense for the year ending December 31, 2013 includes only amortization to be recorded after March 31, 2013.

7. Long-Term Debt

The following table summarizes our long-term debt:

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|----------------------|
| \$5M Convertible Senior Secured Promissory Notes including interest at 5% per annum payable quarterly through December 31, 2013, and an additional one time 5% interest charge payable on January 15, 2013 if not repaid by December 31, 2012, collateralized by a first priority lien shared equally with holder of the Convertible Line of Credit with Related Party in all of the patents and intellectual property owned by the Company subordinated to the Convertible Debt related to acquisition for Surgical Biologics intellectual property until repaid. | | |
| (a) | \$ - | \$ 5,313,645 |
| Total debt | \$ - | \$ 5,313,645 |
| Less unamortized debt discount | - | (1,301,203) |
| Less current portion | - | - |
| Long-term portion | \$ - | \$ 4,012,442 |

(a) Investors received First Contingent Warrants (25% of amount invested) and Second Contingent Warrants (25% of amount invested) at an exercise price of \$.01 per share. On December 31, 2011, a total of 1,250,000 First Contingent Warrants were vested. In July 2012, a total of 1,250,000 Second Contingent Warrants were voided due to the

Company's share price trading at or above \$1.75 for ten consecutive trading days. The additional interest resulting from the beneficial conversion feature, inclusive of the First Contingent Warrants, totaled \$2,278,052 which was recorded as a debt discount and was amortized to interest expense using the effective interest rate over the life of the note.

Senior Secured Promissory Notes

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

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As of December 31, 2012, the Company had not repaid the Notes in full and as a result requires the Company to pay 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. The additional interest was accrued on a monthly basis during the year.

In conjunction with the sale of the Notes, the Company incurred a placement fee of \$32,800 and issued 42,400 common stock warrants to the placement agents at an exercise price of \$1.09 per share. 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 Notes using the effective interest method. Further, the placement agent warrants are classified in stockholders' equity because they achieved all of the requisite conditions for equity classification in accordance with GAAP.

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

8. Net Income (loss) Per Share

Basic net income (loss) per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net 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, | |
|---|------------------------------|-----------------|
| | 2013 | 2012 |
| Net income (loss) | \$ (1,620,408) | \$ (1,093,652) |
| Denominator for basic earnings per share - weighted average shares | 93,128,466 | 74,872,122 |
| 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 | 93,128,466 | 74,872,122 |
| Income (loss) per common share - basic and diluted | \$ (0.02) | \$ (0.01) |

(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:

| | Three months ended March 31, | |
|---|------------------------------|------------|
| | 2013 | 2012 |
| Outstanding Stock Options | 16,022,703 | 12,517,000 |
| Outstanding Warrants | 2,344,002 | 7,891,567 |
| Convertible Debt, promissory notes | — | 5,131,018 |
| Convertible Line of Credit with Related Party | — | 1,358,931 |
| Convertible Debt, Acquisition | — | 1,059,836 |
| | 18,366,705 | 27,958,352 |

9.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, 2013 totaled 375,000. On March 6, 2013, the Board of Directors approved 6,000,000 additional shares to be made available under the 2006 Plan, bringing the maximum number of shares of common stock which can be issued under the 2006 Plan to 22,500,000 at March 31, 2013, subject to the ratification and approval by the Company’s stockholders.

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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, 2013 | 13,614,135 | \$ 1.42 | | |
| Granted | 2,645,000 | \$ 5.04 | | |
| Exercised | (170,099) | \$ 1.37 | | |
| Unvested options forfeited | (59,667) | \$ 2.32 | | |
| Vested options expired | (6,666) | \$ 1.15 | | |
| Outstanding at March 31, 2013 | 16,022,703 | \$ 2.02 | | |
| Vested at March 31, 2013 | 6,853,995 | \$ 1.11 | 6.7 | \$ 27,258,080 |
| Vested or expected to vest at March 31, 2013 | 15,641,584 | \$ 1.98 | 8.1 | \$ 48,645,480 |

(a) Includes forfeiture adjusted unvested shares.

The intrinsic value of the options exercised during the three months ended March 31, 2013, was approximately \$613,000.

Following is a summary of stock options outstanding and exercisable at March 31, 2013:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------------|-----------------------|---|---|-----------------------|---|
| | Number outstanding | Weighted- Average Remaining Contractual Term (in years) | Weighted- Average Exercise Price | Number Exercisable | Weighted- Average Exercise Price |
| 0.50 - \$ 0.76 | 2,319,500 | 5.2 | \$ 0.67 | 2,319,500 | \$ 0.67 |
| 0.87 - \$ 1.35 | 7,002,003 | 8.3 | 1.19 | 3,092,797 | 1.19 |
| 1.40 - \$ 2.29 | 1,851,700 | 6.7 | 1.63 | 1,441,698 | 1.66 |
| 2.33 - \$ 3.75 | 2,179,500 | 9.5 | 2.75 | | |
| 3.85 - \$ 5.80 | 2,670,000 | 9.9 | 5.03 | | |
| | 16,022,703 | 8.1 | \$ 2.02 | 6,853,995 | \$ 1.11 |

Total unrecognized compensation expense related to granted stock options at March 31, 2013, was approximately \$12,961,000 and is expected to be recognized over a weighted-average period of 2.6 years.

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, | | | |
|--------------------------|------------------------------|---|------|---|
| | 2013 | | 2012 | |
| Expected volatility | 64.3 | % | 58.3 | % |
| Expected life (in years) | 6 | | 6 | |
| Expected dividend yield | — | | — | |
| Risk-free interest rate | 0.98%-1.86% | | 0.88 | % |

The weighted-average grant date fair value for options granted during the three months ended March 31, 2013 was approximately \$2.94

During the first quarter of 2013, the Company granted 250,000 shares of restricted stock with a weighted-average grant date fair value of \$5.07 which vest over a three year period. As of March 31, 2013, there was approximately \$1,262,000 of total unrecognized stock-based compensation related to time-based, nonvested restricted stock. That expense is expected to be recognized on a straight-line basis over a weighted-average period of 2.93 years.

For the three months ended March 31, 2013 and 2012, the Company recognized stock-based compensation as follows:

| | Three Months Ended March 31, | |
|-------------------------------------|------------------------------|------------|
| | 2013 | 2012 |
| Cost of products sold | \$ 50,162 | \$ 24,010 |
| Research and development | 75,978 | 71,520 |
| Selling, general and administrative | 858,652 | 405,455 |
| | \$ 984,792 | \$ 500,985 |

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 the warrant activity for the three months ended March 31, 2013:

| | Number of Warrants | Weighted-Average Exercise Price per Warrant |
|--|--------------------|---|
| Warrants outstanding at January 1, 2013 | 3,129,168 | \$ 1.04 |
| Warrants exercised: | | |
| Contingent warrants related to private placement of common stock | (62,500) | 0.01 |
| Callable warrants | (266,666) | 1.50 |
| Other | (456,000) | 1.15 |
| Warrants outstanding at March 31, 2013 | 2,344,002 | \$ 1.00 |

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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, and 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, 2013 and December 31, 2012.

10. 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. However, the Company does have franchise tax obligations in certain states. This expense and related liability is included in the accompanying financial statements as income tax provision and accounts payable, respectively. The amount of federal operating loss carryforwards was approximately \$43,100,000 at March 31, 2013. A valuation allowance is recorded to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that a portion or none of the deferred tax assets will be realized. After consideration of all the evidence, including reversal of deferred tax liabilities, future taxable income and other factors, management has determined that a full valuation allowance is necessary as of March 31, 2013. Additionally, the Company has various tax credit carryforwards of approximately \$1,400,000 as of March 31, 2013.

11. Supplemental disclosure of cash flow and non-cash investing and financing activities:

| | Three Months Ended | |
|--|--------------------|----------|
| | March 31, | |
| | 2013 | 2012 |
| Cash paid for interest | \$ 3,688 | \$ 2,435 |
| Income taxes paid | 7,275 | - |
| Purchases of property, plant and equipment financed via capital leases | 107,259 | - |
| Stock issuance in lieu of Director's fees | - | 184,653 |
| Deferred financing costs | 27,236 | 4,747 |
| Beneficial conversion related to line of credit with related party | - | 514,456 |
| Stock issuance in connection of Earn Out Liability | 5,792,330 | - |
| Stock issuance in exchange for convertible debt | 5,272,004 | - |
| Cashless exercise of warrants | - | 136 |

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12. Leased Equipment under Capital Leases

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Leased equipment under capital leases | | |
| Leased equipment under capital leases | \$ 175,793 | \$ 84,650 |
| Less: payments under capital lease obligations | 14,813 | 16,116 |
| Leased equipment under capital leases, net | \$ 160,980 | \$ 68,534 |

The Company has capital leases with interest rates ranging from 6.78% to 12.34% and maturity dates from June 2015 through January 2018.

13. Contractual Commitments

In addition to the Capital Leases noted above, the Company has entered into operating lease agreements for facility space and equipment. In addition, the Company has minimum royalty payments due in conjunction with one of its licenses. The estimated annual lease and royalty expense are as follows:

| | 12-month period ended March 31 | |
|------------|--------------------------------|---------|
| 2014 | \$ | 295,553 |
| 2015 | | 142,767 |
| 2016 | | 50,000 |
| 2017 | | 50,000 |
| Thereafter | | 387,500 |
| | \$ | 925,820 |

14. Subsequent Events

As a condition of the lease for new office space that will commence on May 1, 2013 the Company was obligated to post an additional security deposit of approximately \$250,000 which it deposited on April 5, 2013 increasing the total amount deposited to approximately \$500,000.

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.

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Recent Events

During the months of January and February 2013, all holders of the Convertible Senior Secured Promissory Notes converted their interest in this obligation to shares of MiMedx common stock. The number of shares of common stock issued as a result of these transactions totaled approximately 5,272,000. In connection with this conversion, the Company expensed, during the quarter, approximately \$1,328,000 of debt discount and deferred financing costs. Included in this total are approximately 532,000 shares representing the Chief Executive Officer's conversion of his Note.

On January 31, 2013, the Company entered into a lease agreement (the "Lease") under which the Company will lease approximately 80,000 square feet of office, laboratory and warehouse space in Marietta, Georgia. The building will become the Company's new corporate headquarters. The initial term of the lease is sixty nine (69) months commencing on

May 1, 2013. Base rental payments over the term of the lease total approximately \$6,700,000. Under the Lease, the Company has posted a security deposit of approximately \$500,000 of which \$250,000 was paid after the end of the first quarter 2013.

In March of 2013, the Company issued approximately 1,175,000 shares of Common Stock in final settlement of the earn-out liability connected with the 2011 acquisition of Surgical Biologics.

During the quarter, the Company was granted one international patent for the hydrogel technology, one US patent for the collagen technology, and four US patents for the amnion technology. Additionally, we filed sixteen applications during the most recent quarter, including five non-provisional applications for the collagen technology and eleven non-provisional applications for the amnion technology.

Results of Operations Comparison for the Three Months Ended March 31, 2013 to the Three Months Ended March 31, 2012

Revenue

Total revenue increased approximately \$7,851,000 to \$11,557,000 for the three months ended March 31, 2013, as compared to \$3,706,000 for the three months ended March 31, 2012. The increase in revenue as compared to the prior year is due primarily to increased sales of our amniotic membrane tissue products, EpiFix® and AmnioFix®. The Company experienced an approximate increase of \$2,551,000 or 127% in demand in the Surgical and Sports Medicine market. This growth over prior year was driven by increased use of our AmnioFix injectable products as well as additional surgical applications where the anti-scarring properties of the tissue were deemed to be beneficial. The growth in Wound Care market revenue of approximately \$5,184,000 or 444% as compared to \$1,169,000 in the prior year driven by the addition of a direct sales force starting in the third quarter of 2012 and continuing into the first quarter of 2013 focusing on Government accounts. The sales executives hired have extensive experience in the wound care sector and maintain direct relationships with the physicians. Sales to Government accounts are sold through a distributor who handles all of the contracting matters including invoicing and collection. This distributor is also a service disabled veteran owned small business. The Other markets category which includes our Ophthalmic and Dental tissue based products which are sold on an OEM basis as well as our HydroFix® medical device product sold through distributors increased approximately \$115,000 or 22% as compared to prior year.

Tissue Processing Costs and Cost of Products Sold

Cost of products sold as a percentage of revenue improved to 16.5% from 25.9% as compared to prior year. The improvement was due primarily to the increase in direct sales revenue, improved product mix and higher production

rates that absorb a greater percentage of fixed manufacturing costs. Personnel costs represent approximately \$1,127,000 or 59.2% of total manufacturing, quality assurance and recovery spending for the three months ended year March 31, 2013.

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Research and Development Expenses

Our research and development expenses (“R&D expenses”) increased approximately \$840,000 or 206.3% to \$1,247,000 during the three months ended March 31, 2013, compared to approximately \$407,000 in the prior year. The increase is primarily related to increased investments in clinical trials and patent related costs. Approximately \$233,000, or 18.7%, of R&D expenses for the three months ended March 31, 2013 were attributable to personnel costs, compared to approximately \$136,000 or 33.4% for the three months ended March 31, 2012.

Our research and development expenses consist primarily of internal personnel costs, clinical trials, fees paid to external consultants, and supplies and instruments used in our laboratories.

Selling, General and Administrative Expenses

Selling, General and Administrative expenses for the three months ended March 31, 2013, increased approximately \$5,732,000 to \$8,369,000 compared to \$2,637,000 for the three months ended March 31, 2012. Selling expense increases were driven by costs associated with building our direct sales organization for Government accounts and to a lesser degree our commercial direct sales organization as well as increased commissions due to higher sales volume. Increased spending on support costs related to medical reimbursement including our reimbursement hotline, our information technology infrastructure to help manage the growth of the business, increased share based compensation expense and a provision for anticipated costs associated with its management incentive program. 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. Personnel costs, excluding sales commissions and bonuses, represent approximately \$1,571,000 or 18.8% of total Selling, General and Administrative expenses in the first quarter of 2013.

Net Interest Expense

We recorded financing and net interest expense of approximately \$1,343,000 during the three months ended March 31, 2013, compared with approximately \$462,000 of financing and net interest expense during the three months ended March 31, 2012. The increase of approximately \$881,000 is primarily due to the acceleration of debt discount related to the conversion of our Convertible Senior Secured Promissory Notes, which were issued during the last quarter of 2011. The following table summarizes the interest charges for the three months ended March 31, 2013 and 2012:

| | Three Months Ended March 31, | | | | | | | |
|---|------------------------------|---------------------|---------------------|-----------|------------------|---------------------|---------------------|----------|
| | 2013 | | | | 2012 | | | |
| | Debt Discount | Accrued Interest | Interest Expense | Total | Debt Discount | Accrued Interest | Interest Expense | Total |
| Convertible line of credit with related party | \$— | \$— | \$— | \$— | \$11,423 | \$16,205 | \$— | \$27,628 |
| Converted debt related to acquisition | — | — | — | — | 80,353 | 10,521 | — | 90,874 |
| Convertible Senior secured promissory notes | 1,328,439 | 11,571 | — | 1,340,010 | 213,954 | 123,288 | — | 337,242 |
| Deferred financing related to senior | — | — | — | — | 4,747 | — | — | 4,747 |

secured promissory
notes

| | | | | | | | | |
|-------|-------------|----------|---------|-------------|-----------|-----------|---------|-----------|
| Other | — | — | 3,233 | 3,233 | — | — | 1,796 | 1,796 |
| | \$1,328,439 | \$11,571 | \$3,233 | \$1,343,243 | \$310,477 | \$150,014 | \$1,796 | \$462,287 |

Liquidity and Capital Resources

Revenue continues to increase quarter over quarter while management maintains tight controls over spending. As of March 31, 2013, the Company had approximately \$5,725,000 of cash and cash equivalents. The Company reported total current assets of approximately \$20,689,000 and total current liabilities of approximately \$5,971,000 at March 31, 2013. The current ratio for the period decreased to 3.5 as compared to 3.6 as of December 31, 2012. Management believes that its anticipated cash from operating and financing activities and existing cash and cash equivalents will enable the Company to meet its operational liquidity needs and fund its planned investing activities for the next year.

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Contractual Obligations

Contractual obligations associated with our ongoing business activities are expected to result in cash payments in future periods. The table below summarizes the amounts and estimated timing of these future cash payments as of March 31, 2013:

| Contractual Obligations | TOTAL | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|-----------------------------|--------------|---------------------|-----------|-----------|----------------------|
| Capital lease obligations | \$ 160,980 | 22,816 | 69,423 | 66,558 | 2,183 |
| Operating lease obligations | 375,820 | 243,630 | 132,190 | - | - |
| Royalty payments | 550,000 | - | 100,000 | 100,000 | 350,000 |
| | \$ 1,086,800 | 266,446 | 301,613 | 166,558 | 352,183 |

Discussion of cash flows

Net cash used in operations during the three months ended March 31, 2013, increased approximately \$810,000 to \$2,098,000 compared to \$1,288,000 used in operating activities for the three months ended March 31, 2012, primarily attributable to increases in accounts receivable and inventory offset by increases in accrued compensation and accrued expenses.

Net cash used in investing activities during the three months ended March 31, 2013, increased approximately \$27,000 to \$74,000 compared to \$47,000 used in investing activities for the three month period ended March 31, 2013. The increase was due to increased purchases of property and equipment.

Net cash flows from financing activities during the three months ended March 31, 2013 increased approximately \$898,000 to \$1,142,000 compared to \$244,000 during the three months ended March 31, 2012. Cash flows from financing activities during the current quarter include approximately \$925,000 received from the exercise of warrants, approximately \$232,000 received from the exercise of stock options, and \$15,000 in payments on capital lease obligations for equipment.

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 use of cash (see the table below). The Adjusted EBITDA for the first quarter of 2013 was approximately \$1,119,000 which is an improvement of approximately \$805,000 as compared to the prior year quarter. This improvement was the result of increased revenue and improved gross margins.

We use various numerical measures in investor 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.

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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:

| | Three Months Ended March 31, | |
|--|---------------------------------|---------------|
| | 2013 | 2012 |
| Net Loss (Per GAAP) | \$(1,620,408) | \$(1,093,652) |
| Add back: | | |
| Income Taxes | 50,275 | - |
| Financing expense associated with beneficial conversion of note payable issued in conjunction with acquisition | - | 80,353 |
| Financing expense associated with beneficial conversion of Line of Credit with Related Party | - | 11,423 |
| Financing expense associated with beneficial conversion of Senior Secured Promissory Notes | 1,328,439 | 218,701 |
| Other interest expense, net | 14,804 | 151,810 |
| Depreciation Expense | 98,751 | 110,388 |
| Amortization Expense | 262,596 | 333,977 |
| Share Based Compensation | 984,792 | 500,985 |
| Earnings/(Loss) Before Interest, Taxes, Depreciation, Amortization and Share-Based Compensation | \$1,119,249 | \$313,985 |

Critical Accounting Policies

In preparing our financial statements we follow accounting principles generally accepted in the United States, which require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. A summary of our significant accounting policies that require the use of estimates and judgments in preparing the financial statements was provided in our Annual Report on Form 10-K for the year ended December 31, 2012. During the first three months of fiscal 2013, there were no material changes to the accounting policies and assumptions previously disclosed.

Recent Accounting Pronouncements

For the effect of recent accounting pronouncements, see Item 1 Financial Statements – Note 2.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes from the disclosures presented in the Company's Form 10-K for the year ended December 31, 2012. For a discussion of the Company's market risks, see Item 7A - "Quantitative and Qualitative Disclosures about Market Risk" of the Company's Form 10-K for the year ended December 31, 2012.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer. Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our controls and procedures were effective as of the end of the period covered by this report.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding disclosures.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the three months ended March 31, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

We have confidence in our internal controls and procedures. Nevertheless, our management, including our Chief Executive Officer and Principal Financial Officer, does not expect that our disclosure procedures and controls or our internal controls will prevent all errors or intentional fraud. An internal control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all our control issues and instances of fraud, if any, have been detected.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

As of the date of this report, there have been no material changes to the risk factors included in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2012, except for the following:

Market Concentrations and Credit Risk

The Company's principal market concentration of risk is related to its limited distribution channels. Two customers accounted for approximately 75% of revenues for the quarter ended March 31, 2013, with one customer representing approximately 65% and another customer which represented approximately 10% of total revenue. The Company's accounts receivable are derived from customers primarily located in the United States of America. As of March 31, 2013 the same two customers accounted for approximately 76% of total accounts receivable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended March 31, 2013 the holders of the Company's convertible debt converted their interest in the notes to shares of Common Stock. The number of shares issued as a result of these transactions totaled approximately 5,272,000. The Company also issued approximately 1,175,000 shares of Common Stock in final settlement of the earn-out liability connected with the 2011 acquisition of Surgical Biologics. Additionally, the Company issued approximately 785,000 shares of common stock and received cash proceeds of approximately \$925,000 for the exercise of warrants during the period.

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Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit
Number Reference Description

| | |
|---------------|---|
| <u>10.1 #</u> | Lease dated January 25, 2013 by and between MiMedx Group, Inc., and HUB Properties GA, LLC. |
| 10.2 | MiMedx Group, Inc., 2013 Management Incentive Plan (MIP) and Operating Incentive Plan (OIP) (Filed as Exhibit 10.1 to the Company's Form 8-K filed on March 12, 2013) |
| 10.3 | 2013 Amendment to Assumed Stock Incentive Plan (Filed as Exhibit 10.2 to the Company's Form 8-K filed on March 12, 2013) |
| <u>31.1 #</u> | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>31.2 #</u> | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>32.1 #</u> | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| <u>32.2 #</u> | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 10, 2013

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

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