ORGANOVO HOLDINGS, INC.
Form 424B3
November 14, 2012
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-182101

PROSPECTUS SUPPLEMENT NO. 1

(TO PROSPECTUS DATED July 6, 2012)

Organovo Holdings, Inc.

Common Stock, Par Value $0.001 Per Share

This Prospectus Supplement No. 1 (the Prospectus Supplement) supplements our Prospectus dated July 6, 2012 (the Prospectus) relating to the resale of up to 32,095,974 shares of our common stock by certain selling security holders listed on pages 13 through 18 of the Prospectus, including any permitted donee, pledgee, transferee or other successor in interest. We will not receive any proceeds from the sale of shares by the selling security holders.

Recent Developments

This Prospectus Supplement is being filed to update and supplement the information in the Prospectus with the information contained in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed with the Securities and Exchange Commission on November 14, 2012 (the Quarterly Report). Accordingly, we have attached the Quarterly Report to this Prospectus Supplement. Any statement contained in the Prospectus shall be deemed to be modified or superseded to the extent that information in this Prospectus Supplement modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement.

This Prospectus Supplement should be read in conjunction with, and may not be delivered or utilized without, the Prospectus.

In reviewing this Prospectus Supplement, you should carefully consider the matters described under the caption Risk Factors beginning on page 6 of the Prospectus and beginning on page 25 of our Quarterly Report.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Prospectus Supplement is truthful or complete. Any representation to the contrary is a criminal offense.

This Prospectus Supplement does not constitute an offer to sell or the solicitation of an offer to buy any securities.

The date of this Prospectus Supplement is November 14, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 September 30, 2012

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 000-54621

Organovo Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-1488943**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6275 Nancy Ridge Drive, Suite 110, San Diego, CA 92116	**(858) 550-9994**
(Address of principal executive offices and zip code)	**(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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 ¨

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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of September 30, 2012, a total of 46,969,141 shares of the Registrant s Common Stock, $0.001 par value, were outstanding.

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Organovo Holdings Inc.

(A development stage company)

Condensed Consolidated Balance Sheets

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets		
Current Assets		
Cash and cash equivalents	$ 7,675,918	$ 339,607
Grants receivable	95,477	
Inventory	312,182	291,881
Deferred financing costs		318,843
Prepaid expenses and other current assets	144,515	79,874
Total current assets	8,228,092	1,030,205
Fixed Assets - Net	605,920	278,208
Restricted Cash	88,321	
Other Assets	120,890	100,419
Total assets	$ 9,043,223	$ 1,408,832
Liabilities and Stockholders Deficit		
Current Liabilities		
Accounts payable	$ 61,347	$ 657,560
Accrued expenses	830,033	437,837
Deferred revenue	75,000	152,500
Capital lease obligation, current portion	9,845	
Accrued interest payable		24,018
Convertible notes payable, current portion		703,833
Total current liabilities	976,225	1,975,748
Capital lease obligation, net current portion	19,712	
Warrant liabilities	35,471,527	1,266,869
Total liabilities	$ 36,467,464	$ 3,242,617
Commitments and Contingencies (Note 5)		
Stockholders Deficit		
Common stock, $0.001 par value; 150,000,000 shares authorized, 46,969,141 and 22,445,254 issued and outstanding at September 30, 2012 and December 31, 2011, respectively	46,969	22,445
Additional paid-in capital	13,208,039	4,835,326
Deficit accumulated during the development stage	(40,679,249)	(6,691,556)
Total stockholders deficit	(27,424,241)	(1,833,785)
Total Liabilities and Stockholders Deficit	$ 9,043,223	$ 1,408,832

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Organovo Holdings, Inc.

(A development stage company)

Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	*Period from April 19, 2007 (Inception) through September 30, 2012*
Revenues					
Product	$	$	$	$ 100,000	$ 223,500
Collaborations	373,761	231,974	752,736	449,213	1,515,824
Grants	95,477		95,477	56,925	759,589
Total Revenues	469,238	231,974	848,213	606,138	2,498,913
Cost of product revenue				50,584	133,607
Selling, general, and administrative expenses	2,981,481	550,157	4,939,403	1,129,597	7,605,440
Research and development expenses	1,105,456	304,251	2,305,311	1,013,981	5,503,699
Loss from Operations	(3,617,699)	(622,434)	(6,396,501)	(1,588,024)	(10,743,833)
Other Income (Expense)					
Fair value of warrant liabilities in excess of proceeds received			(19,019,422)		(19,019,422)
Change in fair value of warrant liabilities	42,252,357		(5,190,637)		(5,197,206)
Financing transaction costs in excess of proceeds received			(2,129,500)		(2,129,500)
Loss on disposal of fixed assets	(158,366)		(158,366)		(158,366)
Interest expense	(203)	(182,320)	(1,087,656)	(294,245)	(3,406,098)
Interest income	1,358		3,342		5,348
Other income (expense)	596	(488)	(8,953)	(2,038)	(30,172)
Total Other Income (Expense)	42,095,742	(182,808)	(27,591,192)	(296,283)	(29,935,416)
Net Income (Loss)	$ 38,478,043	$ (805,242)	$ (33,987,693)	$ (1,884,307)	$ (40,679,249)
Net income (loss) per common share - basic	$ 0.87	$ (0.07)	$ (0.86)	$ (0.16)	$
Net income (loss) per common share - diluted	$ 0.69	$ (0.07)	$ (0.86)	$ (0.16)	$
Weighted average shares used in computing net income (loss) per common share - basic	44,099,554	12,262,691	39,349,681	11,537,879	
Weighted average shares used in computing net income (loss) per common share - diluted	55,849,360	12,262,691	39,349,681	11,537,879	

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Organovo Holdings, Inc.

(A development stage company)

Unaudited Condensed Consolidated Statements of Stockholders Deficit

Period from April 19, 2007 (Inception) through September 30, 2012

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
Balance at Inception (April 19, 2007)		**$**	**$**	**$**	**$**
Issuance of Common stock					
Stock-based compensation expense					
Net Loss					
Balance at December 31, 2007		**$**	**$**	**$**	**$**
Issuance of Common stock to founders	1,729,532	1,730	(1,730)		
Issuance of restricted Common stock	12,627,697	12,628	(12,628)		
Stock-based compensation expense			1,742		1,742
Net Loss				(97,559)	(97,559)
Balance at December 31, 2008	**14,357,229**	**$ 14,358**	**$ (12,616)**	**$ (97,559)**	**$ (95,817)**
Issuance of restricted Common stock	130,422	130	(130)		
Stock-based compensation expense			2,336		2,336
Net Loss				(872,041)	(872,041)
Balance at December 31, 2009	**14,487,651**	**$ 14,488**	**$ (10,410)**	**$ (969,600)**	**$ (965,522)**
Issuance of restricted Common stock	219,369	219	(219)		
Stock-based compensation expense			3,856		3,856
Net Loss				(1,338,694)	(1,338,694)
Balance at December 31, 2010	**14,707,020**	**$ 14,707**	**$ (6,773)**	**$ (2,308,294)**	**$ (2,300,360)**
Issuance of Common stock through conversion of notes payable	7,676,828	7,677	3,482,081		3,489,758
Issuance of restricted Common stock	61,406	61	(61)		
Warrants issued with convertible notes and conversion of notes			1,111,364		1,111,364
Beneficial conversion feature of convertible notes payable			239,700		239,700
Stock-based compensation expense			9,015		9,015
Net Loss				(4,383,262)	(4,383,262)
Balance at December 31, 2011	**22,445,254**	**$ 22,445**	**$ 4,835,326**	**$ (6,691,556)**	**$ (1,833,785)**
Issuance of Common stock in connection with the merger	6,000,000	6,000	(6,000)		
Issuance of Common stock through private placements in connection with the merger	13,722,600	13,723	13,708,877		13,722,600
Costs associated with the merger			(13,722,600)		(13,722,600)
Issuance of Common stock through conversion of notes payable and accrued interest in connection with the merger	1,525,387	1,525	1,523,862		1,525,387
Issuance of warrants to consultant			72,919		72,919
Issuance of Common stock from warrant exercises	1,810,831	1,811	1,766,665		1,768,476

Warrant liability removed due to exercise of warrants			3,728,001		3,728,001
Issuance of Common stock from stock option exercises	224,064	224	17,701		17,925
Issuance of restricted common stock	1,380,000	1,380	(1,380)		
Restricted stock forfeitures	(138,995)	(139)	139		
Stock-based compensation expense			1,284,529		1,284,529
Net Loss				(33,987,693)	(33,987,693)
Balance at September 30, 2012	**46,969,141**	**$ 46,969**	**$ 13,208,039**	**$ (40,679,249)**	**$ (27,424,241)**

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Organovo Holdings, Inc.

(A development stage company)

Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Period from April 19, 2007 (Inception) through September 30, 2012
Cash Flows From Operating Activities			
Net loss	$ (33,987,693)	$ (1,884,307)	$ (40,679,249)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of deferred financing costs	318,843		438,296
Loss on disposal of fixed assets	158,366		158,366
Depreciation and amortization	116,828	49,929	273,156
Amortization of debt discount	896,167	97,565	2,083,735
Interest accrued on convertible notes payable	11,616	196,680	495,392
Fair value of warrant liabilities in excess of proceeds	19,019,422		19,019,422
Change in fair value of warrant liabilities	5,190,637		5,197,206
Stock-based compensation	1,284,529	2,596	1,301,478
Amortization of warrants issued for services	36,054		36,054
Warrants issued in connection with exchange agreement			527,629
Increase (decrease) in cash resulting from changes in:			
Grants receivable	(95,477)	59,744	(95,477)
Inventory	(327,993)	(212,395)	(619,874)
Prepaid expenses and other assets	(53,490)	1,044	(146,496)
Accounts payable	(596,213)	374,973	61,347
Accrued expenses	392,196	260,031	830,033
Deferred revenue	(77,500)	95,075	75,000
Net cash used in operating activities	(7,713,708)	(959,065)	(11,043,982)
Cash Flows From Investing Activities			
Restricted cash deposits	(88,321)		(88,321)
Purchases of fixed assets	(255,750)	(16,290)	(682,573)
Purchases of intangible assets		(65,000)	(95,000)
Net cash used in investing activities	(344,071)	(81,290)	(865,894)
Cash Flows From Financing Activities			
Proceeds from issuance of convertible notes payable		1,042,500	4,630,000
Proceeds from issuance of common stock and warrants	15,491,075		15,491,075
Proceeds from exercise of stock options	17,925		17,925
Proceeds from issuance of related party notes payable		225,000	250,000
Principal payments on capital lease obligations	(4,663)		(4,663)
Repayment of related party notes payable		(250,000)	(250,000)
Repayment of convertible notes and interest payable	(110,247)		(110,247)
Deferred financing costs		(205,984)	(438,296)
Net cash provided by financing activities	15,394,090	811,516	19,585,794

Net Increase (Decrease) in Cash and Cash Equivalents		7,336,311		(228,839)		7,675,918
Cash and Cash Equivalents at Beginning of Period		339,607		285,308		
Cash and Cash Equivalents at End of Period	$	7,675,918	$	56,469	$	7,675,918
Supplemental Disclosure of Cash Flow Information:						
Interest	$	10,247	$		$	10,247
Income Taxes	$	800	$	2,400	$	3,200

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Supplemental Disclosure of Noncash Investing and Financing Activities:

During 2008, the Company issued 1,729,532 shares of Common stock to its founders.

During 2011 and 2010 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued 61,406, 219,369 and 13,038,894, respectively, shares of restricted Common stock to certain employees, advisors and consultants of the Company.

During 2011 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued certain convertible notes payable that included warrants. The warrants and the related beneficial conversion feature, valued at $823,435 were classified as equity instruments and recorded as a discount to the carrying value of the related debt.

During 2011 and for the period from April 19, 2007 (Inception) through December 31, 2011, the Company issued warrants, valued at approximately $1,260,000, in connection with certain convertible notes payable. The warrants were recorded as a warrant liability and recorded as a discount to the carrying value related to debt.

During 2011, the Company issued 7,676,828 shares of Common stock to note holders for the conversion of Convertible Notes with a principal balance totaling $3,030,000 and accrued interest totaling $459,758.

During 2012, the Company issued 1,525,387 shares of Common stock to note holders for the conversion of Convertible Notes with a principal balance totaling $1,500,000 and accrued interest totaling $25,387.

During 2012, the Company issued warrants, valued at approximately $32,743,000, in connection with the Reverse Merger and the Private Placement. The warrants were recognized as a derivative liability.

During 2012, the Company purchased equipment valued at $34,220 through a capital lease.

During 2012, the Company transferred approximately $307,700 of inventory to fixed assets.

During 2012, the Company issued 100,000 warrants to purchase shares of our common stock for consulting services. The warrants were valued at approximately $73,000.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of operations and basis of presentation

References in these notes to the unaudited condensed financial statements to Organovo Holdings, Inc., Organovo Holdings, we, us, our, the Company and our Company refer to Organovo Holdings, Inc. and its consolidated subsidiary Organovo, Inc.

The Company has developed and is commercializing a platform technology for the generation of three-dimensional (3D) human tissues that can be employed in drug discovery and development, biological research, and as therapeutic implants for the treatment of damaged or degenerating tissues and organs.

As of September 30, 2012, the Company has devoted substantially all of its efforts to product development, raising capital, and building infrastructure. The Company has not realized significant revenues from its planned principal operations. Accordingly, the Company is considered to be in the development stage.

The accompanying interim condensed financial statements have been prepared by the Company, without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of its financial position, results of operations and cash flows in accordance with generally accepted accounting principles (GAAP). The balance sheet at December 31, 2011 is derived from the audited balance sheet at that date.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal and recurring, necessary for a fair statement of financial position, results of operations and cash flows. These financial statements should be read in conjunction with the financial statements included in the Company s Form 8-K/A for the fiscal year ended December 31, 2011 filed with the Securities and Exchange Commission (the SEC) on May 11, 2012. Operating results for interim periods are not necessarily indicative of operating results for the Company s 2012 fiscal year.

Merger transaction

On February 8, 2012, Organovo, Inc., a privately held Delaware corporation, merged with and into Organovo Acquisition Corp., a wholly-owned subsidiary of the Company, a publicly traded Delaware corporation, with the Organovo, Inc. surviving the merger as a wholly-owned subsidiary of the Company (the Merger). As a result of the Merger, the Company acquired the business of the Organovo, Inc., and will continue the existing business operations of Organovo, Inc.

Simultaneously with the Merger, on February 8, 2012 (the closing date), all of the issued and outstanding shares of Organovo, Inc. s common stock converted, on a 1 for 1 basis, into shares of the Company s Common stock, par value $0.001 per share. Also, on the closing date, all of the issued and outstanding options to purchase shares of Organovo, Inc. s common stock and other outstanding warrants to purchase Organovo, Inc. s common stock, and all of the issued and outstanding bridge warrants to purchase shares of Organovo, Inc. s common stock, converted, respectively, on a 1 for 1 basis, into options, warrants and new bridge warrants to purchase shares of the Company s common stock.

Immediately following the consummation of the Merger: (i) the former security holders of Organovo, Inc. common stock had an approximate 75% voting interest in the Company and the Company stockholders retained an approximate 25% voting interest, (ii) former executive management team of Organovo, Inc. remained as the only continuing executive management team for the Company, and (iii) the Company s ongoing operations consist solely of the ongoing operations of Organovo, Inc. Based primarily on these factors, the Merger was accounted for as a reverse merger and a recapitalization in accordance with GAAP. As a result, these financial statements reflect the historical results of Organovo, Inc. prior to the Merger, and the combined results of the Company following the Merger. The par value of Organovo, Inc. common stock immediately prior to the Merger was $0.0001 per share. The par value subsequent to the Merger is $0.001 per share, and therefore the historical results of Organovo, Inc. prior to the Merger have been retroactively adjusted to affect the change in par value.

In connection with three separate closings of a private placement transaction completed in connection with the Merger (the Private Placement), the Company received gross proceeds of approximately $5,000,000, $1,800,000 and $6,900,000 on February 8, 2012, February 29, 2012 and March 16, 2012, respectively. The Company previously received $1,500,000 from the purchase of 6% convertible notes which were automatically converted into 1,500,000 shares of common stock, plus 25,387 shares for accrued interest of $25,387 on the principal, at February 8, 2012. See Note 3.

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

The cash transaction costs related to the Merger were approximately $2,129,500.

Before the Merger, Organovo Holdings board of directors and stockholders adopted the 2012 Equity Incentive Plan (the 2012 Plan). The 2012 Plan provides for the issuance of 6,553,986 shares of the Company s Common stock to executive officers, directors, advisory board members and employees. In addition, Organovo Holdings assumed and adopted Organovo, Inc. s 2008 Equity Incentive Plan.

Liquidity

As of September 30, 2012, the Company had an accumulated deficit of approximately $40,679,200. The Company also had negative cash flow from operations of approximately $7,713,700 during the nine months ended September 30, 2012.

On February 8, 2012, the Company received gross proceeds of approximately $5,000,000 in a private placement offering in conjunction with the Merger. On February 29, 2012 and March 16, 2012, the Company completed two additional closings of its Private Placement and received total gross proceeds of approximately $8,722,000.

The Company expects to cover its anticipated operating expenses over the next twelve months through cash on hand (including the funds raised during the first quarter of 2012 through the Private Placement of its securities), funds received through equity or debt financing, and funds received from grants and its collaborative agreements, and other commercial arrangements.

The Company s ability to continue its operations is dependent upon its ability to raise additional capital through equity or debt financing, and to generate capital through collaborative research agreements and other commercial arrangements. There can be no assurance that any additional financing will be available on acceptable terms or available at all. Any equity financing may result in dilution to existing stockholders and any debt financing may include restrictive covenants.

The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates used in preparing the financial statements include those assumed in computing the valuation of warrants and conversion features, revenue recognized under the proportional performance model, the valuation of stock-based compensation expense, and the valuation allowance on deferred tax assets.

Cash and cash equivalents	The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents.
Restricted cash	As of September 30, 2012, the Company had approximately $88,300 of restricted cash deposited with a financial institution. $38,300 is held in certificates of deposit to support a letter of credit agreement related to the facility lease entered into during 2012. The additional $50,000 is held by the financial institution as a guarantee for the Company s commercial credit cards.
Grants receivable	Grants receivable represent amounts due from the NHLBI, a division of the NIH under three research grants. The Company considers the grants receivable to be fully collectible; and accordingly, no allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.
Inventory	Inventories are stated at the lower of the cost or market (first-in, first out). Inventory at September 30, 2012 consisted of approximately $48,400 in finished goods, $193,800 work-in-process and $70,000 in raw materials. Inventory at December 31, 2011 consisted of approximately $235,000 in finished goods and $56,900 in raw materials.

The Company provides inventory allowances based on excess or obsolete inventories determined based on anticipated use in the final product. There was no obsolete inventory reserve as of September 30, 2012 or December 31, 2011.

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

Deferred financing costs	As of December 31, 2011, deferred financing costs consisted of approximately $140,000 associated with the Merger transaction and approximately $179,000 associated with convertible notes as part of the private placement offering that was initiated in the fourth quarter of 2011. The deferred financing costs related to the private placement offering were amortized over the life of the convertible notes and fully amortized to expense upon conversion of the convertible notes on February 8, 2012. The deferred financing costs associated with the Merger transaction in excess of the proceeds received were expensed at the effective Merger date. As of September 30, 2012, there were no deferred financing costs.
Fixed assets and depreciation	Property and equipment are carried at cost. Expenditures that extend the life of the asset are capitalized and depreciated. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term. As of September 30, 2012, the estimated useful life of the fixed assets range between two and five years.
Impairment of long-lived assets	In accordance with authoritative guidance the Company reviews its long-lived assets, including property and equipment and other assets, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates whether future undiscounted net cash flows will be less than the carrying amount of the assets and adjusts the carrying amount of its assets to fair value. Management has determined that no impairment of long-lived assets occurred in the period from inception through September 30, 2012.
Fair value measurement	Financial assets and liabilities are measured at fair value, which is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of September 30, 2012 and December 31, 2011, cash and cash equivalents were comprised of cash in checking accounts.

The Company used Level 3 inputs for its valuation methodology for the warrant derivative liabilities. The estimated fair values were determined using a Monte Carlo option pricing model based on various assumptions (see Note 2). The Company s derivative liabilities are adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in other income or expense accordingly, as adjustments to fair value of derivative liabilities.

At September 30, 2012, the estimated fair values of the liabilities measured on a recurring basis are as follows:

Fair Value Measurements at September 30, 2012

	Balance at September 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Warrant liability	$ 35,471,527			$ 35,471,527

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

The following table presents the activity for liabilities measured at estimated fair value using unobservable inputs for the nine months ended September 30, 2012:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Warrant Derivative Liability	
Beginning Balance at December 31, 2011	$	1,266,869
Issuances		32,742,022
Adjustments to estimated fair value		5,190,637
Warrant liability removal due to settlements		(3,728,001)
Ending Balance at September 30, 2012	$	35,471,527

Revenue recognition

Research and Development Revenue Under Collaborative Agreements.

In December 2010, the Company entered into a 12 month research contract agreement with a third party, whereby the Company was engaged to perform research and development services on a fixed-fee basis for approximately $600,000. Based on the proportional performance criteria, the Company recognized approximately $75,000 and $75,000 and $232,000 and $449,200 in revenue related to the contract during three and nine months ended September 30, 2012 and 2011, respectively. Total revenue recognized on the contract from inception through September 30, 2012 was approximately $525,000.

In October 2011, the Company entered into a research contract agreement with a third party, whereby the Company will perform research and development services on a fixed-fee basis for $1,365,000. The agreement included an initial payment to the Company of approximately $239,000, with remaining payments expected to occur over a 21-month period. During the three and nine months ended September 30, 2012, the Company recorded approximately $298,800 and $677,800, respectively, in revenue related to the research contract in recognition of the proportional performance achieved by the Company. Total revenue recognized on the contract from inception through September 30, 2012 was approximately $916,800.

Billings to customers or payments received from customers are included in deferred revenue on the balance sheet until all revenue recognition criteria are met. As of September 30, 2012 and December 31, 2011, the Company had $75,000 and $152,500 in deferred revenue related to its collaborative research programs.

NIH and U.S. Treasury Grant Revenues

During 2010, the U.S. Treasury awarded the Company two one-time grants totaling approximately $397,000 for investments in qualifying therapeutic discovery projects under section 48D of the Internal Revenue Code. The grants cover reimbursement for qualifying expenses incurred by the Company in 2010 and 2009. The proceeds from these grants are classified in Revenues Grants for the period from inception through September 30, 2012.

During 2012, 2010 and 2009, the NHLBI, a division of the NIH, awarded the Company three research grants totaling approximately $558,000. Revenues from the NIH grants are based upon internal and subcontractor costs incurred that are specifically covered by the grants, and where applicable, an additional facilities and administrative rate that provides funding for overhead expenses. These revenues are recognized when expenses have been incurred by subcontractors and as the Company incurs internal expenses that are related to the grants. Revenue recognized under these grants for the three and nine months ended September 30, 2012 and 2011 was approximately $95,500 and $95,500 and $0 and $57,000, respectively. Total revenue recorded under these grants from inception through September 30, 2012 was approximately $363,000.

Net income (loss) per share

Net income (loss) per share is presented as both basic and diluted net income (loss) per share. Basic net income (loss) per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net income (loss) per share includes the impact of potentially dilutive securities. No dilutive effect was calculated for the nine months ended September 30, 2012 or the three and nine months ended September 30, 2011 as the Company reported a net loss for each respective period and the effect would have been anti-dilutive. Total common stock equivalents that were excluded from computing diluted net income (loss) per share were approximately 429,658 and 25,801,190 for the three and nine months ended September 30, 2012, respectively, and 4,494,031 for the three and nine months ended September 30, 2011.

Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

2. Derivative Liability

During 2012, in relation to the reverse Merger and the three offerings under the Private Placement, the Company issued 21,347,182 five-year warrants to purchase the Company s Common stock. The exercise price of the warrants is protected against down-round financing throughout the term of the warrant, as described below. The terms of the warrants issued in the first quarter of 2012 are the same as those issued in connection with the convertible notes in October and November of 2011. Pursuant to ASC 815-15 and ASC 815-40, the fair value of the warrants of approximately $32,742,000 was recorded as a derivative liability on the issuance dates.

As of December 31, 2011, the Company had a warrant liability of $1,266,869 related to 1,500,000 warrants issued with Convertible Notes in the fourth quarter of 2011.

The Company revalued all of the warrants at the end of the period, and the estimated fair value of the outstanding warrant liabilities is $35,471,527 at September 30, 2012. The change in fair value of the derivative liabilities for the three and nine months ended September 30, 2012 was a decrease of $42,252,357 and an increase of $5,190,637, respectively, and is included in other income (expense) in the 2012 statement of operations.

During the nine months ended September 30, 2012, 1,768,475 of these warrants that are classified as derivative liabilities were exercised. The warrants were revalued as of the settlement date, and the change in fair value was recognized to earnings. The Company also recognized a reduction in the warrant liability based on the fair value as of the settlement date, with a corresponding increase in additional paid-in capital.

The derivative liabilities were valued at the closing dates of the Private Placement and at March 31, June 30 and September 30 of 2012 using a Monte Carlo valuation model with the following assumptions:

	Closing dates	March 31, 2012	June 30, 2012	September 30, 2012
Closing price per share of common stock	$ N/A	$ 2.47	$ 3.99	$ 2.05
Exercise price per share	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Expected volatility	105.8%-110.5%	103.5%	102.9%	102.7%
Risk-free interest rate	0.82%-1.07%	1.04%	0.72%	0.62%
Dividend yield				
Remaining expected term of underlying securities (years)	5	4.90	4.80	4.42

In addition, as of the valuation dates, management assessed the probabilities of future financings assumptions in the Monte Carlo valuation models. Management also applied a discount for lack of marketability to the valuation of the derivative liabilities based on such trading restrictions due to the shares not being registered.

If, prior to the expiration date of the warrants, the Company issues additional shares of Common Stock, as defined below, without consideration or for a consideration per share less than the exercise price of the warrants in effect immediately prior to such issue, then the exercise price shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying such exercise price by a fraction, (A) the numerator of which shall be (1) the number of shares of Common stock outstanding immediately prior to such issue plus (2) the number of shares of Common stock which the aggregate consideration received or to be received by the Company for the total number of additional shares of Common stock so issued would purchase at such exercise price; and (B) the denominator of which shall be the number of shares of Common stock outstanding immediately prior to such issue plus the number of such additional shares of Common stock so issued; provided that (i) all shares of Common stock issuable upon conversion or exchange of convertible securities outstanding immediately prior to such issue shall be deemed to be outstanding, and (ii) the number of shares of Common stock deemed issuable upon conversion or exchange of such outstanding convertible securities shall be determined without giving effect to any adjustments to the conversion or exchange price or conversion or exchange rate of such convertible securities resulting from the issuance of additional shares of Common stock that is the subject of this calculation. For purposes of the warrants, additional shares of common stock shall mean all shares of Common stock issued by the Company after the effective date (including without limitation any shares of Common stock issuable upon conversion or exchange of any convertible securities or upon exercise of any option or warrant, on an as-converted basis), other than: (i) shares of Common stock (and/or warrants for any class of equity securities of the Company) issued or issuable upon conversion or exchange of any convertible securities or exercise of any options or warrants outstanding on the effective date; (ii) shares of Common stock issued or issuable by reason of a dividend, stock split, split-up or other distribution on shares of Common stock; (iii) shares of Common stock (or options with respect thereto) issued or issuable to employees or directors of, or consultants to, the Company or any of its subsidiaries pursuant to a plan, agreement or arrangement approved by the Board of Directors of the Company; (iv) any securities issued or issuable by the Company pursuant to (A) the Private Placement; or (B) the Merger; (v) securities issued pursuant to acquisitions or strategic transactions approved by a majority of disinterested directors of the Company, provided that any

Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

such issuance shall only be to a person which is, itself or through its subsidiaries, an operating company in a business synergistic with the business of the Company and in which the Company receives benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities and (vi) securities issued to financial institutions, institutional investors or lessors in connection with credit arrangements, equipment financings or similar transactions approved by a majority of disinterested directors of the Company, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities.

Upon each adjustment of the exercise price pursuant to the provisions stated above, the number of warrant shares issuable upon exercise of the warrants shall be adjusted by multiplying a number equal to the exercise price in effect immediately prior to such adjustment by the number of warrant shares issuable upon exercise of the warrant immediately prior to such adjustment and dividing the product so obtained by the adjusted exercise price.

3. Convertible Notes Payable

Convertible notes

At December 31, 2011, an unsecured $100,000 Convertible Note, with interest at 10% and a maturity date of April 2014, remained outstanding. In February 2012, at the close of the Merger, the convertible note and accrued interest in the aggregate of approximately $110,000 were repaid.

Private placement

On September 18, 2011, Organovo, Inc. s Board of Directors authorized a private placement offering of up to 30 units of its securities at a price of $50,000 per unit for an aggregate purchase price of $1,500,000. Each unit consisted of a convertible note in the principal amount of $50,000 accruing simple interest at the rate of 6% per annum (the Convertible Notes), plus five-year warrants to purchase 50,000 shares of the next Qualified Round of Equity Securities, at an exercise price of $1.00 per share. The principal plus accrued interest was convertible into the Company s common stock upon consummation of the Merger.

During October and November 2011, $1,500,000 of Convertible Notes bearing interest at 6% per annum with a maturity date of March 30, 2012, and five-year warrants to purchase 1,500,000 shares of the Company s Common stock were issued to investors under the Private Placement. The warrants are exercisable at $1.00 per share, expire in five years, and contain down-round price protection. The Convertible Notes were outstanding at December 31, 2011, and were converted into 1,525,387 units during February 2012, in connection with the Merger.

The Company determined that the warrants represent a derivative instrument due to the down-round price protection, and accordingly, the Company recorded a derivative liability related to the warrants. Additionally, upon issuance of the notes during 2011, the Company recorded the discount for the beneficial conversion feature of $239,700. The debt discount associated with the warrants and beneficial conversion feature were amortized to interest expense over the life of the Convertible Notes, and fully amortized upon conversion of the Convertible Notes. The Company recorded approximately $0 and $896,200 of interest expense for the amortization of the debt discount during the three and nine months ended September 30, 2012, respectively, and approximately $1,500,000 for the period from inception through September 30, 2012.

As consideration for locating investors to participate in the Private Placement, the placement agent earned a cash payment of $195,000. Additionally, upon closing of the Merger transaction, the placement agent earned five-year warrants to purchase 610,155 shares of the Company s Common stock at $1.00 per share. These warrants contain down round protection and were classified as derivative liabilities upon issuance. See Note 2.

Interest expense, including amortization of the note discounts, for the three and nine months ended September 30, 2012 and 2011 was approximately $200 and $1,087,700 and $182,300 and $294,200, respectively. Interest expense, including amortization of the note discounts, for the period from April 19, 2007 (inception) through September 30, 2012 was approximately $3,406,100.

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

During 2012, concurrently with the closing of the Merger and in contemplation of the Merger, the Company completed the initial closing of the Private Placement of up to 8,000,000 units of its securities, at a price of $1.00 per unit, with the ability to increase the offering to an aggregate of up to 16,000,000 units. Each unit consisted of one share of Common Stock and a warrant to purchase one share of Common Stock. The Company completed three closings under the Private Placement during the three months ended March 31, 2012, and raised total gross proceeds of $13,722,600 and total net proceeds of $11,593,066. The Company issued 13,722,600 shares of its Common Stock and warrants to purchase 15,247,987 shares of its Common Stock (including warrants to purchase 1,525,387 shares to former holders of the bridge notes) exercisable at $1.00 to investors in the Offering. The placement agent and its selected dealers were paid total cash commissions of $1,372,260 and the placement agent was paid an expense allowance of $411,678 and was issued placement agent warrants to purchase 6,099,195 shares of the Company s Common Stock at an exercise price of $1.00 per share.

The warrants issued to the investors and the placement agent, as described above, contain down round protection, and accordingly, were classified as derivative liabilities upon issuance. On the closing date, the derivative liabilities were recorded at an estimated fair value of approximately $32,742,000. Given that the fair value of the derivative liabilities exceeded the total proceeds of the private placement of $13,722,600, no net amounts were allocated to the common stock. The amount by which the recorded liabilities exceeded the proceeds of approximately $19,019,400 was charged to other expense at the closing dates. The Company has revalued the derivative liability as of September 30, 2012, and will continue to do so on each subsequent balance sheet date until the securities to which the derivative liabilities relate are exercised or expire, with any changes in the fair value recognized through earnings in the statement of operations. See Note 2.

Registration rights agreement

The Company entered into a registration rights agreement (each, a Registration Rights Agreement) with the investors in the Offering. Under the terms of the Registration Rights Agreement, the Company agreed to file a registration statement covering the resale of the Common Stock underlying the Units and the Common Stock that is issuable on exercise of the Investor Warrants (but not the Common Stock that is issuable upon exercise of the warrants issued as compensation to the placement agent in connection with the Offering) within 90 days from the final closing date of the Offering (the Filing Deadline). The Company filed the registration statement on June 13, 2012. The registration statement became effective during July 2012.

The Company agreed to use reasonable efforts to maintain the effectiveness of the registration statement through the one year anniversary from the date the registration statement was declared effective by the Securities and Exchange Commission (the SEC), or until Rule 144 of the 1933 Act is available to investors in the Offering with respect to all of their shares, whichever is earlier. If the Company had not met the Effectiveness Deadline, the Company would have been liable for monetary penalties equal to one-half of one percent (0.5%) of each investor s investment in the offering at the end of every 30 day period following such Effectiveness Deadline failure until such failure was cured. No payments shall be owed with respect to any period during which all of the investor s registrable securities may be sold by such investor under Rule 144 or pursuant to another exemption from registration.

4. Stockholders Equity

Common stock

During February and March 2012, the Company issued 21,247,987 shares of Common stock related to the Merger. See Notes 1 and 3. During June 2012, the Company issued 137,584 shares of common stock upon exercise of 145,000 warrants. During the three months ended September 30, 2012, the Company issued 1,673,247 shares of Common stock upon exercise of 1,675,975 warrants.

During August 2012, 224,064 stock options were exercised for 224,064 shares of Common stock.

Restricted stock awards

In February 2008, four founders, including the Chief Executive Officer (CEO) and three directors of the Company received 11,779,960 shares of restricted Common stock, 25% vesting after the first year and the remaining 75% vesting in equal quarterly portions over the following three years.

From 2008 through December 31, 2011, the Company issued a total of 1,258,934 shares of restricted Common stock to various employees, advisors, and consultants of the Company. 1,086,662 of those shares were issued under the 2008 Equity Incentive Plan and the remaining 172,272 shares were issued outside the plan. 1,380,000 shares of restricted stock were issued during the nine months ended September 30, 2012.

During the three and nine months ended September 30, 2012, the Company issued an aggregate 950,000 of restricted stock units to certain members of senior management and 230,000 restricted stock units to non-executive employees. The vesting schedule is 25% on the anniversary of the vesting start date over 4 years.

During the three and nine months ended September 30, 2012, the Company issued an aggregate 200,000 restricted stock units to certain members of senior management. The vesting of these restricted stock units are performance based. As of September 30, 2012, the Company believes the financial targets will be met, and accordingly is recognizing the related stock based compensation expense over the requisite service period.

During the three and nine months ended September 30, 2012, there were 80,653 and 138,995 shares, respectively, of restricted stock cancelled. There were 190,000 restricted stock units held by two employees that vested during the period. On the vesting date, 80,653 shares of Common stock were returned to the Company, at the option of the holders, to cover the tax liability related to the vesting of the restricted stock units. Upon the return of the Common stock, stock option grants, equal to the amount of Common stock returned to the Company, with immediate vesting, were granted to the individuals at the vesting date market value strike price.

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

A summary of the Company s restricted stock award activity is as follows:

	Number of Shares
Unvested at December 31, 2007	
Granted	12,627,697
Vested	(65,211)
Canceled / forfeited	
Unvested at December 31, 2008	12,562,486
Granted	130,422
Vested	(5,373,004)
Canceled / forfeited	
Unvested at December 31, 2009	7,319,904
Granted	219,369
Vested	(3,256,191)
Canceled / forfeited	
Unvested at December 31, 2010	4,283,082
Granted	61,406
Vested	(3,233,193)
Canceled / forfeited	
Unvested at December 31, 2011	1,111,295
Granted	1,380,000
Vested	(1,485,820)
Canceled / forfeited	(138,995)
Unvested at September 30, 2012	866,480

The fair value of each restricted Common stock award is recognized as stock-based expense over the vesting term of the award. The Company recorded restricted stock-based compensation expense in operating expenses for employees and non-employees of approximately $998,100 and $998,700 and $700 and $2,600 for the three and nine months ended September 30, 2012 and 2011, respectively. The Company recorded restricted stock-based compensation expense of approximately $1,013,300 for the period from April 19, 2007 (inception) through September 30, 2012.

As of September 30, 2012, total unrecognized restricted stock-based compensation expense was approximately $1,354,400, which will be recognized over a weighted average period of 1.97 years.

Stock options

Under the 2008 Equity Incentive Plan, on October 12, 2011, the Company granted an officer incentive stock options to purchase 896,256 shares of Common stock at an exercise price of $0.08 per share, a quarter of which vested on the one year anniversary of employment, in May 2012, and the remaining options will vest ratably over the remaining 36 month term.

During April 2012, 305,658 incentive stock options were issued, and during the three months ended September 30, 2012, a total of 1,420,903 incentive stock options were issued, under the 2012 Equity Incentive Plan, at various exercise prices, a quarter of which will vest on either the one year anniversary of employment or one year anniversary of the vesting commencement date. The remaining options will vest ratably over the remaining 36 month terms, with the exception of 80,653 of the incentive stock option grants that have immediate vesting at the grant date and 126,000 of the incentive stock option grants that vest quarterly over 3 years.

The following table summarizes stock option activity for the nine months ended September 30, 2012:

	Options Outstanding	**Weighted-Average Exercise Price**
Outstanding at December 31, 2011	896,256	$ 0.08
Options Granted	1,726,561	$ 1.82
Options Canceled		
Options Exercised	(224,064)	0.08
Outstanding at September 30, 2012	2,398,753	$ 1.33
Vested and Exercisable at September 30, 2012	82,329	$ 2.10

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

During the three and nine months ended September 30, 2012, the Company s Board of Directors awarded 1,420,903 and 1,726,561 options, respectively, to certain employees. There were no stocks options granted for the same periods in 2011.

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. Stock based compensation expense is recognized over the vesting period using the straight-line method. The fair value of employee stock options was estimated at the grant date using the following weighted average assumptions:

	Nine months ended September 30, 2012
Dividend yield	
Volatility	91.83%
Risk-free interest rate	0.88%
Expected life of options	6.04 years

The weighted average grant date fair value per share of employee stock options granted during the nine months ended September 30, 2012 was $1.40.

The assumed dividend yield was based on the Company s expectation of not paying dividends in the foreseeable future. Due to the Company s limited historical data, the estimated volatility incorporates the historical and implied volatility of comparable companies whose share prices are publicly available. The risk-free interest rate assumption was based on the U.S. Treasury rates. The weighted average expected life of options was estimated using the average of the contractual term and the weighted average vesting term of the options.

The total employee stock-based compensation recorded as operating expenses was approximately $243,800 and $286,400 for the three and nine months ended September 30, 2012, respectively, and $292,800 for the period from April 19, 2007 (inception) through September 30, 2012.

The total unrecognized compensation cost related to unvested stock option grants as of September 30, 2012 was approximately $2,178,700, and the weighted average period over which these grants are expected to vest is 3.66 years.

Warrants

During 2011, the Company issued warrants to purchase 2,909,750 shares of its Common stock. These warrants are immediately exercisable at $1.00 per share, and have remaining terms of approximately 4.47 years. 52,500 of the warrants were exercised during nine months ended September 30, 2012 through a cashless exercise, for issuance of 42,356 shares of common stock.

During the nine months ended September 30, 2012, the Company issued warrants to purchase 21,347,182 shares of its Common stock. These warrants are immediately exercisable at $1.00 per share, and have remaining terms of approximately 4.42 years. 1,768,475 of the warrants were exercised for cash proceeds of $1,768,475 during the nine months ended September 30, 2012. These warrants were derivative liabilities and were valued at the settlement date. The warrant liability was reduced to equity at the fair value on the settlement date. See Note 2.

Additionally, during the three months ended September 30, 2012 the Company entered into a 6 month agreement with a consultant for services. In connection with the agreement, the Company issued 100,000 warrants to purchase common stock, at a price of $1.70, to be earned over 6 months, with a two year life. The fair value of the warrants was estimated to be approximately $73,000. These warrants were classified as equity instruments because they do not contain any anti-dilution provisions. The Black-Scholes model, using a volatility of 79.8% and risk free factor of 0.24%, was used to determine the value. The value is being amortized over the term of the agreement. During the three and nine months ended September 30, 2012, the Company recognized approximately $36,100 of expense related to these services.

The following table summarizes warrant activity for the nine months ended September 30, 2012:

	Warrants	Weighted-Average Exercise Price
Balance at December 31, 2011	2,909,750	$ 1.00
Granted	21,447,182	$ 1.00
Expired / Canceled		$
Exercised	(1,820,975)	$ 1.00
Balance at September 30, 2012	22,535,957	$ 1.00

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

Common stock reserved for future issuance

Common stock reserved for future issuance consisted of the following at September 30, 2012:

Common stock warrants outstanding	22,535,957
Common stock options outstanding under the 2008 Plan	672,192
Common stock options outstanding under the 2012 Plan	1,726,561
Total	24,934,710

5. Commitments and Contingencies

Operating leases

The Company leases office and laboratory space under non-cancelable operating leases. The Company records rent expense on a straight-line basis over the life of the lease and records the excess of expense over the amounts paid as deferred rent. Deferred rent is included in accrued expenses in the condensed balance sheets.

Rent expense was approximately $129,500 and $241,600 and $31,900 and $85,700 for the three and nine months ended September 30, 2012 and 2011, respectively. Rent expense was approximately $566,300 for the period from April 19, 2007 (inception) through September 30, 2012.

The Company entered into a new facilities lease at 6275 Nancy Ridge Drive, San Diego, CA 92121. The lease was signed on February 27, 2012 with occupancy as of July 15, 2012. The base rent under the lease is approximately $38,800 per month with 3% annual escalators. The lease term is 48 months with an option for the Company to extend the lease at the end of the lease term.

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Organovo Holdings, Inc.

(A development stage company)

Notes to Condensed Consolidated Financial Statements

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2012, are as follows:

2012	$ 3,619
2013	383,346
2014	480,644
2015	476,724
2016	271,932
Total	$ 1,616,265

During the three months ended September 30, 2012, the Company entered into an agreement to lease certain laboratory equipment under a non-cancelable capital lease, which is included in fixed assets as follows:

September 30, 2012	
Lab equipment	$ 34,220
Less accumulated depreciation	(1,711)
Net book value	$ 32,509

Depreciation expense related to the capital lease obligation was approximately $1,700, for the three and nine months ended September 30, 2012.

Future minimum capital lease payments at September 30, 2012 are as follows:

Year Ending December 31,	
2012	$ 2,844
2013	10,824
2014	10,824
2015	6,856
2016	
Total minimum lease payments	31,348
Amount representing interest	(1,791)
Present value of minimum lease payments	29,557
Less current portion	(9,845)
Long term portion	19,712

6. Concentrations

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company maintains cash balances at various financial institutions primarily located in San Diego. Accounts at these institutions are secured by the Federal Deposit Insurance Corporation. At times, balances may exceed federally insured limits. The Company has not experienced losses in such accounts, and management believes that the Company is not exposed to any significant credit risk with respect to its cash and cash equivalents.

7. Subsequent Event

Subsequent to September 30, 2012, the Company granted an aggregate of 363,500 incentive stock options to employees and Board of Director members. The vesting is over four years for employees and three years for Board members.

Subsequent to September 30, 2012, the Company issued 300,000 warrants to two Consultants for Services to be provided.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management s discussion and analysis should be read in conjunction with the Company s historical condensed consolidated financial statements and the related notes thereto included in our Current Report on Form 8-K/A for the year ended December 31, 2011, as filed with the SEC on May 11, 2012 (the Current Report). The management s discussion and analysis contains forward-looking statements, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words believe, plan, intend, anticipate, target, estimate, expect and the like, and/or future tense or conditional constructions (will, may, could, should, etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties including those under Risk Factors in Item 2.01 of our Current Report, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements in this quarterly report. The Company s actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors. The Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report.

Basis of Presentation

References in this section to Organovo Holdings, Inc., Organovo Holdings, we, us, our, the Company and our Company refer to Organ Holdings, Inc. and its consolidated subsidiary Organovo, Inc.

On February 8, 2012, Organovo Holdings, Inc., a privately held Delaware corporation, merged with and into Organovo Acquisition Corp., a wholly-owned subsidiary of Organovo Holdings, Inc., with Organovo, Inc. surviving the merger as a wholly-owned subsidiary of the Company (the Merger). As a result of the Merger, the Company acquired the business of Organovo, Inc., and will continue the existing business operations of Organovo, Inc.

The condensed consolidated financial statements included in this Form 10-Q have been prepared in accordance with the SEC instructions to Quarterly Reports on Form 10-Q. Accordingly, the condensed consolidated financial statements presented elsewhere in this Form 10-Q and discussed below are unaudited and do not contain all the information required by U.S. generally accepted accounting principles (GAAP) to be included in a full set of financial statements. The audited financial statements for our fiscal year ended December 31, 2011, filed with the SEC on Form 8-K/A on May 11, 2012 include a summary of our significant accounting policies and should be read in conjunction with this Form 10-Q. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such periods have been included in this Form 10-Q. All such adjustments are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year.

Overview

Organovo, Inc. was founded in Delaware in April 2007. Activities since Organovo, Inc. s inception through September 30, 2012, were devoted primarily to developing a platform technology for the generation of three-dimensional (3D) human tissues that can be employed in drug discovery and development, biological research, and as therapeutic implants for the treatment of damaged or degenerating tissues and organs.

As of September 30, 2012, Organovo, Inc. had devoted substantially all of its efforts to product development, raising capital and building infrastructure. Organovo, Inc. did not, as of that date, realize significant revenues from its planned principal operations. Accordingly, the Company is considered to be in the development stage.

Critical Accounting Policies, Estimates, and Judgments

Our financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We continually evaluate our estimates and judgments, the most critical of which are those related to revenue recognition, valuation of long-lived assets and warrant liability, share-based compensation and the timing of the achievement of collaboration milestones. We base our estimates and judgments on historical experience and other factors that we believe to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known. Besides the estimates identified above that are considered critical, we make many other accounting estimates in preparing our financial statements and related disclosures. All estimates, whether or not deemed critical, affect reported amounts of assets, liabilities, revenues and expenses, as well as disclosures of contingent assets and liabilities. These estimates and judgments are also based on historical experience and other factors that are believed to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known, even for estimates and judgments that are not deemed critical.

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For further information, refer to the Company s audited financial statements and notes thereto included in the Current Report on Form 8-K/A for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission (the SEC) on May 11, 2012 (the Current Report) .

Results of Operations

Comparison of the three months ended September 30, 2012 and 2011

Revenues

For the three months ended September 30, 2012, total revenues of approximately $469,200 were $237,200 or 102% above the approximately $232,000 in revenues for the same period in 2011. Collaborative research revenues for the three months ended September 30, 2012 of approximately $373,800 increased approximately $141,800 or 61% over the same period of prior year of approximately $232,000 in revenues. Grant revenue for the three months ended September 30, 2012 of approximately $95,500 increased approximately $95,500 or 100% over the same period of prior year of $0 in grant revenue.

Operating Expenses

Overview

Operating expenses increased approximately $3,232,500 or 378% in the three months ended September 30, 2012 over the same period in 2011, from approximately $854,400 in 2011 to $4,086,900 in 2012. Most significantly, relative to the same period in the prior year, the Company invested in infrastructure and outside services to support its transition from private ownership to a publicly owned and traded corporation. As expected in such transition, incremental initiatives were established in investor outreach, corporate governance, and SEC financial reporting. Non-payroll, related incremental public company expenses incurred in the three month periods ended September 30, 2012 was approximately $308,200 or 100% increase from $0 for the same period in 2011. Moreover, the Company invested in building its executive, research, and development staff, increasing the three months ended September 30, 2012 payroll related expenses by approximately $676,800 or 236% over the same periods in 2011. Stock-based compensation expense increased approximately $1,277,200, newly established fees to our non-employee board members were approximately $32,900 and additional space was rented to accommodate our growing administrative and research staff at an approximate incremental cost of $97,500 over the same period in 2011.

Research and Development Expenses

For the three months ended September 30, 2012, research and development expenses increased by approximately $801,200 or 263% over the same periods in 2011, with expenses in the three months ended September 30, 2012 and 2011 of approximately $1,105,500 and $304,300, respectively. The Company increased its research staff to accommodate obligations under certain collaborative research agreements and to expand product development efforts in preparation for research-derived revenues. Full-time research and development staffing increased from twelve scientists, engineers and research associates at September 30, 2011 to twenty-two at September 30, 2012. Laboratory supplies expenses increased from approximately $12,100 in the three months ended September 30, 2011 to approximately $230,000 in the same period in 2012, an increase of approximately $217,900. This increase was related to purchases in support of our collaborative research conducted under our agreements and our NIH grant.

General and Administrative Expenses

For the three months ended September 30, 2012, general and administrative expenses of approximately $2,981,500 increased approximately $2,431,300, or 442%, over expenses in the same period of 2011 of approximately $550,200. Expense increases were primarily driven by the Company s transition from operating in a private environment to operating in a publicly traded environment. Expanded staff increased payroll and facilities expenses in 2012 over 2011 levels. General and administrative staffing increased from four full-time employees at September 30, 2011 to nine at September 30, 2012. The increase was primarily due to the addition of two executive positions and more accounting and administrative staff. There was also salary increases for existing executive officers as approved by the Board of Directors, reflecting the increased responsibilities assumed as a result of being a publicly traded Company. Approximately $308,200 in other public company expenses were incurred in the three months ended September 30, 2012 due to several factors including increases to investor relations spending, financial printing, fees for non-employee Board members, legal expenses, information technology investments in hardware, software and consulting services, and travel.

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Other Income (Expense)

The approximate $42,278,500 increase in other income (expense) for the three month period ending September 30, 2012 over the same period of the prior year, was primarily related to the change in fair value of warrant liabilities for the three months ended September 30, 2012 of approximately $42,252,400. During the Private Placement in the first quarter of 2012 we issued warrants to purchase 6,099,195 shares of our common stock to the placement agent and warrants to purchase 15,247,987 of our common stock to investors in the Private Placement. The warrants issued to the placement agent and Private Placement investors were determined to be derivative liabilities as a result of the anti-dilution provisions in the warrant agreements that may result in an adjustment to the warrant exercise price. We will revalue the derivative liability on each balance sheet date and will do so until the securities to which the derivatives liabilities relate are exercised or expire. The third quarter of 2012 also included a loss on disposal of fixed assets of approximately $158,400 which occurred in relation to moving to our new facility. Other expenses for the three months ended September 30, 2011 of approximately $182,800 related primarily to interest recorded on convertible notes payable.

Comparison of the nine months ended September 30, 2012 and 2011

Revenues

For the nine months ended September 30, 2012, total revenues of approximately $848,200 were approximately $242,100 or 40% above the approximately $606,100 revenues for same periods in 2011. Collaborative research revenues for the nine months ended September 30, 2012 of approximately $752,700 increased approximately $303,500 or 68% over the same period of the prior years of approximately $449,200. In addition, grant revenue of approximately $95,500 increased $38,600 or 68% compared to the nine months ended September 30, 2011. That growth was offset by no product revenues in the nine months ended September 30, 2012, compared to approximately $100,000 of product revenues in the same period of the prior year.

Operating Expenses

Overview

Operating expenses increased approximately $5,110,100, or 238% in the nine months ended September 30, 2012 over the same period in 2011, from approximately $2,143,600 in 2011 to approximately $7,244,700 in 2012. Most significantly, relative to the same period in the prior year, the Company invested in infrastructure and outside services to support its transition from private ownership to a publicly owned and traded corporation. As expected in such transition, incremental initiatives were established in investor outreach, corporate governance, and SEC financial reporting including the need for audited financial statements. Non-payroll, non-audit related incremental public company expenses incurred in the nine month periods ended September 30, 2012, was approximately $2,774,200 or 100% increase from $0 for the same period in 2011. A portion of our public company-related expenses are included in other income and expense. Fees paid to our independent accounting firm to audit our financial statements were approximately $177,800 for the nine months ended September 30, 2012, representing approximately 132% increase from the same period in 2011. Moreover, the Company invested in building its executive, research, and development staff, increasing the nine months ended September 30, 2012 payroll expenses by approximately $1,231,822 or 164% over the same periods in 2011. Stock-based compensation expense increased approximately $1,280,900 for the nine months ended September 30, 2012. Executive search fees totaled approximately $36,000, newly established fees to our non-employee board members were approximately $109,000 and additional space was rented to accommodate our growing administrative and research staff at an approximate incremental cost of $155,900 over the same period in 2011.

Research and Development Expenses

For the nine months ended September 30, 2012, research and development expenses increased by approximately $1,291,300, or 127% over the same period in 2011, with expenses in the nine months ended September 30, 2012 and 2011 of approximately $2,305,300 and $1,014,000, respectively. The Company increased its research staff to accommodate obligations under certain collaborative research agreements and to expand product development efforts in preparation for research-derived revenues. Full-time research and development staffing increased from twelve scientists, engineers and research associates at September 30, 2011 to twenty-two at the same period in 2012. Laboratory supplies expenses increased from approximately $84,100 in the nine months ended September 30, 2011 to approximately $463,900 in the same period in 2012, an increase of approximately $379,800. This increase was related to purchases in support of research conducted under our collaborative agreements and our NIH grant.

General and Administrative Expenses

For the nine months ended September 30, 2012, general and administrative expenses of approximately $4,939,400 increased approximately $3,809,800, or 337%, over expenses in the same period of 2011 of approximately $1,129,600. Expense increases were primarily driven by the Company s transition from operating in a private environment to operating in a publicly traded environment. Expanded staff increased payroll and facilities expenses in 2012 over 2011 levels. General and administrative staffing increased from four full-time employees at September 30, 2011 to nine at September 30, 2012. The increase was primarily due to the addition of two executive positions and more accounting and administrative staff. There were also salary increases for existing executive officers as approved by the Board of Directors, reflecting the increased responsibilities assumed as a result of being a publicly traded Company. Audit related expenses increased approximately $165,300 from $12,500 for the nine month period ended September 30, 2011 to $177,800 for the same period of 2012. Approximately $2,774,200 in other public company expenses were incurred in the nine months ended September 30, 2012 for multiple reasons including increases to investor relations spending, financial printing, fees for non-employee Board members, rent and utilities, legal expenses, information technology investments in hardware, software and consulting services, and travel. A portion of our public company expenses are included in other income and expenses.

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Other Income (Expense)

The approximate $27,294,900 increase in other expenses for the nine month period ending September 30, 2012 over the same period of the prior year, was primarily related to the non-cash transaction costs associated with the warrants issued in our first quarter 2012 Private Placement. During the first quarter of 2012 we incurred costs due to the placement agent for the first quarter Private Placement fees of $1,617,629 and reimbursed expenses and legal fees of $166,310. In addition, we issued warrants to purchase 6,099,195 shares of our common stock to the placement agent and warrants to purchase 15,247,987 of our common stock to investors in the Private Placement. The warrants issued to the placement agent and Private Placement investors were determined to be derivative liabilities as a result of the anti-dilution provisions in the warrant agreements that may result in an adjustment to the warrant exercise price. The fair value of warrant liabilities in excess of proceeds received on the issuance date was $19,019,422. We revalue the derivative liability on each balance sheet date and will do so until the securities to which the derivatives liabilities relate are exercised or expire. The change in fair value of the warrant liabilities for the nine months ended September 30, 2012, was an increase of approximately $5,190,600. Financing transaction costs in excess of proceeds received was $2,129,500, and our interest expense for the nine months ended September 30, 2012 was approximately $1,087,700. The interest expense was primarily comprised of non-cash components including accretion of debt discounts and amortization of deferred financing costs. Other expenses for the nine months ended September 30, 2011 of approximately $296,300 related primarily to interest recorded on convertible notes payable.

Various factors are considered in the pricing models we use to value the warrants, including the Company s current stock price, the remaining life of the warrants, the volatility of the Company s stock price, and the risk free interest rate. Future changes in these factors will have a significant impact on the computed fair value of the warrant liability. As such, we expect future changes in the fair value of the warrants to continue to vary significantly from quarter to quarter.

Financial Condition, Liquidity and Capital Resources

Since its inception, the Company has primarily devoted its efforts to research and development, business planning, raising capital, recruiting management and technical staff, and acquiring operating assets. Accordingly, the Company is considered to be in the development stage.

Since inception, the Company incurred negative cash flows from operations. As of September 30, 2012, the Company had cash and cash equivalents of $7,675,918 and an accumulated deficit of $40,679,249. The Company also had negative cash flow from operations of $7,713,708 during the nine months ended September 30, 2012. At September 30, 2011, the Company had cash of $56,469 and an accumulated deficit of $4,192,601.

At September 30, 2012, the Company had total current assets of $8,228,092 and current liabilities of $976,225, resulting in working capital of $7,251,867. At September 30, 2011, we had total current assets of $553,003 and current liabilities of $3,223,845, resulting in a working capital deficit of $2,670,842.

Net cash used by operating activities for the nine months ended September 30, 2012 was $7,713,708. The Company raised approximately $13.8 million in gross proceeds from the sale of common stock, and $848,213 in revenue during the first nine months of 2012.

Net cash used by operating activities for the nine months ended September 30, 2011 was $959,065.

We believe our cash and cash equivalents on hand as of September 30, 2012, together with funds from equity or debt financing, and amounts to be received from grants and our collaborate research agreements, should be sufficient to fund our ongoing operations as currently planned for at least the next 12 months. The Company has financed its operations primarily through the sale of common stock and convertible notes, and through revenue derived from grants or collaborative research agreements. The Company expects to cover its anticipated operating expenses through cash on hand, through additional financing from existing and prospective investors, and from revenue derived from collaborative research agreements.

The Company will need additional capital to further fund product development and commercialization of its human tissues that can be employed in drug discovery and development, biological research, and as therapeutic implants for the treatment of damaged or degenerating tissues and organs. We cannot be sure that additional financing will be available when needed or that, if available,

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financing will be obtained on terms favorable to us or to our stockholders. Having insufficient funds may require us to delay, scale back, or eliminate some or all of our development programs or relinquish some or even all of our licensed intellectual property. Failure to obtain adequate financing could eventually adversely affect our ability to operate as a going concern. If we raise additional funds from the issuance of equity securities, substantial dilution to our existing stockholders may result. If we raise additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to operate our business.

As of September 30, 2012, the Company had 46,969,141 total issued and outstanding shares of Common Stock, and five year and two year warrants for the opportunity to purchase an additional 22,535,957 shares of Common Stock at $1.00 per share. If all warrants were exercised on a cash basis, the Company would realize an additional $22,535,957 in gross proceeds.

The 2012 Equity Incentive Plan provides for the issuance of up to 6,553,986 shares, or approximately 14.0% of our outstanding Common Stock, to executive officers, directors, advisory board members and employees. In aggregate, issued and outstanding common stock, shares underlying outstanding warrants, and shares reserved for the 2012 incentive plan total 76,059,084 shares of common stock.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, including unrecorded derivative instruments that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. We have certain warrants and options outstanding but we do not expect to receive sufficient proceeds from the exercise of these instruments unless and until the underlying securities are registered, and/or all restrictions on trading, if any, are removed, and in either case the trading price of our Common Stock is significantly greater than the applicable exercise prices of the options and warrants.

Effect of Inflation and Changes in Prices

Management does not believe that inflation and changes in price will have a material effect on the Company s operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
This information has been omitted as the Company qualifies as a smaller reporting company.

Item 4. Controls and Procedures.
Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision of our Chief Executive Officer and our Chief Financial Officer, and with the participation of all members of management, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were designed and operating effectively as of the end of the period covered by this Quarterly Report on Form 10-Q.

Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We do not have any ongoing legal proceedings at this time.

Item 1A. RISK FACTORS.

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in the Company s Current Report on Form 8-K/A for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission (the SEC) on May 11, 2012 (the Current Report). There have been no material changes from the risk factors as previously disclosed in our Current Report. Any of the risks discussed in this Quarterly Report on Form 10-Q or any of the risks disclosed in our Current Report, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Recent Sales of Unregistered Sales of Equity Securities

On August 6, 2012, the Company s Board of Directors approved the issuance of a warrant to purchase 100,000 shares of Common Stock at an exercise price of $1.70 per share to a third party consultant as compensation for services provided to the Company by such consultant. The offers, sales and issuances of this warrant was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act and/or Regulation D and the other rules and regulations promulgated thereunder as a transaction not involving a public offering. The recipient of securities represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates and options issued in such transactions.

(c) Repurchases of Common Stock

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
July 1 - 31, 2012		$		
August 1 - 31, 2012		$		
September 1 - 30, 2012	80,653	$ 2.09		
July 1, 2012 through September 30, 2012		$		

(1) Through our stock incentive plan, 80,653 shares were delivered to us by our employees to satisfy their tax withholding requirements upon vesting of restricted stock for the quarter ended September 30, 2012.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

(a) Exhibits:

The following exhibit index shows those exhibits filed with this report and those incorporated herein by reference:

Exhibit No,	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of February 8, 2012, by and among Organovo Holdings, Inc. a Delaware corporation, Organovo Acquisition Corp., a Delaware corporation and Organovo, Inc., a Delaware corporation (incorporated by reference from Exhibit 2.1 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
2.2	Certificate of Merger as filed with the Delaware Secretary of State effective February 8, 2012 (incorporated by reference from Exhibit 2.2 to the Company s Current Report on Form 8-K, as filed with the SEC on February 13, 2012)
2.3	Articles of Merger as filed with the Nevada Secretary of State effective December 28, 2011 (incorporated by reference from Exhibit 2.1 to the Company s Current Report on Form 8-K, as filed with the Securities and Exchange Commission (the SEC) on February 3, 2012 (the February 2012 Form 8-K)
2.4	Agreement and Plan of Merger, dated as of December 28, 2011, by and between Real Estate Restoration and Rental, Inc. and Organovo Holdings, Inc. (incorporated by reference from Exhibit 2.2 to the Company s Current Report on Form 8-K, as filed with the SEC on January 4, 2012)
2.5	Certificate of Merger as filed with the Delaware Secretary of State effective January 30, 2012 (incorporated by reference from Exhibit 2.3 to the February 2012 Form 8-K)
2.6	Agreement and Plan of Merger, dated as of January 30, 2012, by and between Organovo Holdings, Inc. (Nevada) and Organovo Holdings, Inc. (Delaware) (incorporated by reference from Exhibit 2.2 to the February 2012 Form 8-K)
2.7	Articles of Merger as filed with the Nevada Secretary of State effective January 30, 2012 (incorporated by reference from Exhibit 2.4 to the February 2012 Form 8-K)
3.1(i)	Articles of Incorporation of Real Estate Restoration and Rental, Inc. (incorporated by reference from Exhibit 3.1 to the Company s registration statement (SEC File No. 333-169928) on Form S-1, as filed with the SEC on October 13, 2010
3.1(ii)	Certificate of Incorporation, Certificate of Change of Registered Agent and/or Registered Office, Certificate of Correction, and Certificate of Amendment of Certificate of Incorporation, each of Organovo, Inc., as filed with the Secretary of State of the State of Delaware on April 19, 2007, January 30, 2009, July 29, 2010, and September 28, 2011 respectively (incorporated by reference from Exhibit 3.1(ii) to the Company s Amendment No. 1 to Current Report on Form 8-K/A, as filed with the SEC on March 30, 2012)
3.1(iii)	Certificate of Incorporation of Organovo Holdings, Inc. (Delaware) (incorporated by reference from Exhibit 3.1 to the February 2012 Form 8-K)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certifications pursuant to 18 U.S.C. Section 1350.*
101**	The following financial statements and footnotes from the Accelrys, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Operations; (iii) Condensed Consolidated Statements of Cash Flows; and (iv) the Notes to Condensed Consolidated Financial Statements.

** 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.

ORGANOVO HOLDINGS, INC.

Date: November 14, 2012

By:	*/s/ Keith Murphy*
Name:	*Keith Murphy*
Title:	*Chairman, Chief Executive Officer and President*
	(Principal Executive Officer)
	/s/ Barry Michaels
Name:	*Barry Michaels*
Title:	*Chief Financial Officer and Secretary*
	(Principal Financial and Accounting Officer)

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Exhibit 31.1

CERTIFICATION

I, Keith Murphy, Chief Executive Officer and President of Organovo Holdings, Inc. (the Registrant), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Registrant;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.

4. The Registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant s internal control over financial reporting that occurred during the Registrant s most recent fiscal quarter (the Registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant s internal control over financial reporting; and

5. The Registrant s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant s auditors and the audit committee of the Registrant s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant s internal control over financial reporting.

Date: November 14, 2012

By: /s/ Keith Murphy
Keith Murphy
Chief Executive Officer and President
(Principal Executive Officer)

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Exhibit 31.2

CERTIFICATION

I, Barry D. Michaels, Chief Financial Officer of Organovo Holdings, Inc. (the Registrant), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Registrant;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.

4. The Registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant s internal control over financial reporting that occurred during the Registrant s most recent fiscal quarter (the Registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant s internal control over financial reporting; and

5. The Registrant s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant s auditors and the audit committee of the Registrant s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant s internal control over financial reporting.

Date: November 14, 2012	By:	/s/ Barry D. Michaels
		Barry D. Michaels
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

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Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Organovo Holdings, Inc. (the Corporation) on Form 10-Q for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Keith Murphy, President and Chief Executive Officer and I, Barry D. Michaels, Chief Financial Officer, of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 14, 2012

/s/ Keith Murphy
Keith Murphy
President and Chief Executive Officer

/s/ Barry D. Michaels
Barry D. Michaels
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Organovo Holdings, Inc. and will be retained by Organovo Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Organovo Holdings, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

$

(892

)

$

300

$

1,369

Adjustment to reconcile net income (loss) to cash used in operating activities:	
Depreciation and amortization	
	315
	380
	408
Loss on disposal of property and equipment	
	3
	18
	349
Gain on liquidation	

(894

)

(16,185

)

Discontinued operations

7

(109

)

3,630

Write down of long lived asset

417

Changes in operating assets and liabilities:

Accounts receivable, net	(147)	(1,078)	3,217
Inventories	135	(199)	2,378
Royalty advances	68	(70)	(82)
Prepaid expenses and other current assets	89		

295

(225

)

Accounts payable

(10

)

(695

)

2,421

Accrued royalties

87

213

230

Income taxes

(130

)

Reserve for returns	173	(18)	(370)
Cash used in operating activities	(172)	(1,987)	(2,443)

Investing Activities:

Purchases of property and equipment

(18

)

(124

)

(62

)

Music catalog additions

(63

)

Other

15

27

27

Cash used in investing activities

(3

)

(97

)

(98

)

Financing Activities:

Borrowings on notes payable

2,278

	3,676
	13,946
Payments on notes payable	
	(1,033
)	
	(1,629
)	
	(12,508
)	
Cash provided by financing activities	
	1,245
	2,047
	1,438

Effect of exchange rates on cash	74	(61)	478
Net increase (decrease) in cash equivalents	1,144	(98)	(625)

Cash and equivalents at beginning of period	75	173	798
Cash and equivalents at end of period	$ 1,219	$ 75	

$

173

Supplemental Cash Flow Information

Cash Paid For -

Interest

$

396

$

598

$

483

Income Taxes

$

$

$

4

Non-cash Information

Reduction of notes payable to affiliate through debt forgiveness, recorded as a capital contribution	$	$	612	$
Music Catalogs reclassified to prepaid assets	$	$	173	$

The accompanying notes are an integral part of these financial statements.

K-TEL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2003, 2002 AND 2001

1. BUSINESS AND LIQUIDITY

K-tel International, Inc. (the Company or K-tel) was incorporated in 1968 and currently has its corporate offices located in Plymouth, Minnesota. Through its operating subsidiaries, K-tel licenses its music catalog internationally and markets entertainment products mainly derived from its catalog through retail and direct response marketing channels in the United States and Europe. The Company has a focused method of distribution that targets the strengths of fewer individual retailers and supplies products suited to each retailer s needs. These new products are derived mainly from the Company s master recordings music catalog with the objective of realizing more competitive profit margins. K-tel seeks to license its trademarks to other companies in businesses unrelated to K-tel s current operations. Licenses are granted for a royalty or fee, with no cost to the Company. The Company has licensed certain marks to K-tel Drug Mart Ltd., a Canadian direct marketer of prescription drugs beneficially owned by Philip Kives, the Chairman of the Board, President and Chief Executive Officer of K-tel. K-tel Drug Mart, offers prescription drugs from its pharmacy in Canada to persons in the United States. K-tel is merely a licensor of its mark to K-tel Drug Mart. To date, K-tel Drug Mart s operations have not generated any significant licensing revenues for the Company.

Subsidiaries Bankruptcy and Liquidation

In March 2001, the Company s music distribution subsidiary in the United States, K-tel International (USA), Inc. ceased operations and filed for protection under Chapter 7 of the U. S. bankruptcy code. In connection with this filing, the assets and liabilities of this subsidiary were removed from the books of the Company as control of the subsidiary was transferred to the bankruptcy trustee. The net liability at the time of this filing was shown as a gain on the Chapter 7 liquidation. Management believes the Company will have no ongoing liability related to this subsidiary as a result of the filing and the outcome of the bankruptcy proceeding. During the fiscal year ended June 30, 2001, this subsidiary had net sales of $11,948,000 and an operating loss of $5,299,000.

In November 2000, the Company s consumer products subsidiary in the United Kingdom, K-tel Marketing Ltd., ceased operations and began voluntary liquidation proceedings. At the initial meeting of the creditors on November 24, 2000, the creditors voted for the liquidation to become a creditors liquidation under English law. The Company has not been informed by the liquidators or their counsel of any plan to attempt to hold it or any of its subsidiaries liable for any of the commitments of K-tel Marketing Ltd. Management believes the Company will have no ongoing material liability related to K-tel Marketing Ltd. as a result of the liquidation proceeding. K-tel Marketing Ltd. had no operations during the fiscal years ended June 30, 2003 and 2002. During fiscal 2001, this subsidiary had net sales of $3,179,000 and an operating loss of $3,220,000. Losses in the year ended June 30, 2003 of $581,000 and $180,000 in the year ended June 30, 2002 related mainly to legal fees incurred in the Tristar litigation (See Note 6.)

Discontinued Operations

The Company s consumer products business, which was concentrated in Europe, consisted primarily of housewares, consumer convenience items and exercise equipment. The Company discontinued its consumer products operations in Germany, the United Kingdom and the United States in

June 2000, November 2000 and January 2001, respectively. Accordingly, these activities have been presented in the accompanying financial statements as discontinued operations. Net sales for these operations were $3,818,000 for the fiscal year ended June 30, 2001. The accompanying consolidated financial statements have been prepared to reflect the consumer products division as a discontinued operation. The net liabilities of discontinued operations at June 30, 2003 and 2002 consist of assets of $19,000 and $14,000 and liabilities of $135,000 and $106,000.

Going Concern

For the year ended June 30, 2003, 2002 and 2001, the Company incurred net losses from continuing operations of $311,000, $414,000 and $10,501,000, respectively, and used $172,000, $1,987,000, and $2,443,000 of cash in operating activities. Additionally, the Company had a working capital deficit of $11,006,000 at June 30, 2003.

The Company s ability to continue its present operations and implement future expansion plans successfully is contingent mainly upon its ability to maintain its line of credit arrangements with K-5 Leisure Products, Inc. (See Note 3), increase its revenues and profit margins, and ultimately attain and sustain profitable operations. Without increased revenues and sustained profitability, the cash generated from the Company s current operations will likely be inadequate to fund operations and service its indebtedness on an ongoing basis. Management is focusing its efforts on music licensing and limited music distribution. However, there can be no assurance that the Company will achieve profitable operations through these efforts. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of K-tel International, Inc. and its domestic and foreign subsidiaries, all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition The Company derives its revenue mainly from two sources: the sale of music compilations (predominately compact discs) produced by the Company, and license revenue from the licensing of Company-owned masters. Revenue from music sales is recognized at the time of shipment to the customer, while license revenue is recognized when payment is received from customers or when known amounts are receivable, as prior to that date collection is not considered probable. Most music sales are made with a right of return of unsold goods. Estimated reserves for returns are established by management based upon historical experience and product mix and are subject to ongoing review and adjustment by the Company. These reserves are recorded at the time of sale and are reflected as a reduction in revenues. The Company s reserve for returns was $220,000 at June 30, 2003 and $46,000 at June 30, 2002.

Cost of Goods Sold The Company expenses all product manufacturing, distribution and royalty costs associated with music sales as cost of goods sold. The Company also expenses royalties, commissions and amortization of its owned master recordings associated with its license revenue as costs of goods sold.

Shipping and Handling Costs The Company expenses within cost of goods sold all shipping and handling costs incurred in the shipment of goods.

Cash and Equivalents Cash and equivalents consist principally of cash and short-term, highly liquid investments with original maturities of less than ninety days.

Inventories Inventories, which consists of finished goods that include all direct product costs, are valued at the lower of cost, determined on a first-in, first-out basis, or net realizable value.

Owned Catalog Masters   The Company capitalizes the costs to purchase owned master recordings at the time of acquisition. These costs are amortized over the estimated useful life of these master recordings, which is generally seven years and represents management s best estimate of the average period of value.

Rights to Use Music Product - Certain of the Company s compilation products are master recordings under license from record companies and publishers. In most instances, minimum guarantees or non-refundable advances are required to obtain the licenses and are realized through future sales of the product. The amounts paid for minimum guarantees or non-refundable advances are capitalized and charged to expense as sales are made. The unrealized portion of guarantees and advances is included in royalty advances in the accompanying consolidated balance sheets. Licenses are subject to audit by licensors. When anticipated sales appear to be insufficient to fully recover the minimum guarantees or non-refundable advances, a provision against current operations is made for anticipated losses.

Property and Equipment - Property and equipment are stated at cost. Depreciation and amortization is provided using straight line or declining balance methods over the estimated useful lives of the assets, which range from three to nine years.

Long Lived-Assets   The Company evaluates its long-lived assets quarterly, or earlier if a triggering event occurs, to determine potential impairment by comparing the carrying value of those assets to the related undiscounted future cash flows of the assets. If an asset is determined to be impaired, it is written down to its estimated fair value. During the quarter ended March 31, 2001, the Company suspended its online business to relocate these operations to the Company s offices in Minnesota and update the website to reflect the Company s continuing operations. The Company wrote down the assets of that business to its estimated fair value, resulting in a charge during the quarter ended March 31, 2001 of approximately $240,000. In addition, during the quarter ended June 30, 2001, the Company wrote down approximately $177,000 of trademarks related to its European operations, which were determined to have no remaining value as the Company is no longer marketing the products benefited by those trademarks. These charges were included within general and administrative expense.

Royalties - The Company has entered into license agreements with various record companies and publishers under which it pays royalties on units sold. The Company accrues royalties using contractual rates and certain estimated rates on applicable units sold. The contractual royalty liability is computed quarterly and the accrued royalty balance is adjusted accordingly. The royalty agreements are subject to audit by licensors.

Advertising - The Company expenses the costs of advertising when the advertising takes place, except for direct response advertising, which is capitalized and amortized over its expected period of future benefits (usually the period remaining under a related contract, which is generally less than one year). Direct response advertising consists primarily of television advertising whereby customers respond specifically to the advertising and where the Company can identify the advertising that elicited the response. Advertising expenses were $200,000, $172,000, and $618,000 for the years ended June 30, 2003, 2002 and 2001, respectively.

Foreign Currency - The operations of foreign subsidiaries are measured in local currencies. Assets and liabilities are translated into U.S. dollars at period-end exchange rates. Revenues and expenses are translated at the average exchange rates prevailing during the period. Adjustments resulting from translating the financial statements of foreign entities into U.S. dollars are recorded as a component of accumulated other comprehensive income or loss.

Stock-based Compensation The Company accounts for stock-based awards to employees using the intrinsic value method prescribed in APB No. 25, Accounting for Stock Issued to Employees, whereby the options are granted at market price, and therefore no compensation costs are recognized. The Company has elected to retain its current method of accounting as described above and has adopted the SFAS Nos. 123 and 148 disclosure requirements. If compensation expense for the Company s various stock option plans had been determined based upon the projected fair values at the grant dates for awards under those plans in accordance with SFAS No. 123, the Company s pro-forma net earnings, basic and diluted earnings per common share would have been as follows:

	Fiscal Year Ended June 30,		
	2003	**2002**	**2001**
Net income (loss) (in thousands):			
As reported	$ (892)	$ 300	$ 1,369
Pro forma	$ (907)	$ (172)	$ (496)
Basic and Diluted EPS:			
As reported	$ (.06)	$ .02	$ .10
Pro forma	$ (.06)	$ (.01)	$ (.04)

Income Taxes - Deferred income taxes are provided for temporary differences between the financial reporting basis and tax basis of the Company s assets and liabilities at currently enacted tax rates. A valuation allowance equal to the aggregate amount of deferred tax assets is established when realization is not likely.

Net Income (Loss) Per Share - Basic and diluted net income (loss) per share have been computed by dividing net income (loss) by the weighted average number of shares outstanding during the period. For all periods presented, common stock equivalents were excluded from the per share calculation as the net effect would be antidilutive. For the fiscal years ended June 30, 2003, 2002 and 2001, weighted average options to purchase 442,900, 2,273,839, and 2,336,889 shares of common stock, with weighted average exercise prices of $1.95, $5.89, and $5.77 were excluded from the computation of common share equivalents for the respective periods as they were antidilutive.

Use of Estimates - Preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Principal estimates include allowances for bad debt, inventory valuation, return reserves, royalty obligations, purchase commitments and product replacement costs. Actual results could differ from those estimates used by management.

3. LOANS PAYABLE TO AFFILIATE

K-tel has a Line of Credit Agreement with K-5 Leisure Products, Inc. (K-5), the Company s largest shareholder controlled by Philip Kives, the Chairman of the Board, President and Chief Executive Officer of K-tel. Under the terms of the agreement (the K-5 Facility), K-5 has agreed to make available up to $8,000,000 to K-tel on a revolving basis. The loan bears interest at a variable rate based upon the base rate of a nationally recognized lending institution (4.0% at June 30, 2003), expired July 20, 2005, and is subordinated to the Foothill loan (see below). The Company is currently in negotiations to extend the Line of Credit Agreement until July 20, 2006. The K-5 Facility contains the same covenants as the Foothill loan agreement. K-tel has pledged the stock of its foreign subsidiaries as collateral for the loan, and the loan carries a subordinated position to the Foothill loan on all other assets of the Company. K-tel had outstanding balances of $7,282,000 and $6,026,000 as of June 30, 2003 and 2002, respectively, under the K-5 Facility. At June 30, 2003, K-tel obtained a waiver from K-5 for its non-compliance under the covenants, limitations and restrictions of the credit agreement.

In addition, K-tel has a second loan agreement with K-5, under which K-5 assumed rights and obligations under a loan from the Company s former banker (Foothill Capital Corporation) pursuant to an Assignment and Acceptance Agreement dated February 27, 2001. This Foothill loan, which had been extended through July 20, 2005, (the Company is currently in negotiations to extend the loan agreement until July 20, 2006), provides for a $10,000,000 credit facility consisting of a $4,000,000 term loan due upon expiration, and a $6,000,000 revolving facility under which borrowings are limited to a percent of eligible receivables. Borrowings under the facility bear interest at a variable rate based on a base rate of a nationally recognized lending institution plus 1% (5.0% at June 30, 2003) and are collateralized by the assets of certain Company subsidiaries in the United States, including accounts receivable, inventories, equipment, music library and general intangibles. The loan agreement contains certain financial and other covenants or restrictions, including the maintenance of a minimum shareholders equity by K-tel, limitations on capital expenditures, restrictions on music library acquisitions, limitations on other indebtedness and restrictions on dividends paid by K-tel. As of June 30, 2003 and 2002, $4,000,000 was outstanding under the term loan and there were no borrowings under the revolving facility. At June 30, 2003, K-tel obtained a waiver from K-5 for its non-compliance under the covenants, limitations and restrictions of the credit agreement.

K-tel has an overdraft privilege borrowing facility with The Royal Bank of Scotland in the United Kingdom. This facility is secured by a standby letter of credit for $260,000 provided by K-tel International Ltd., a Canadian company controlled by Philip Kives and is payable on demand in accordance with normal banking practices. Borrowings bear interest of 2.0% per annum over the base rate (a total of 5.75% at June 30, 2003) but are subject to a minimum of 6.0% per annum. K-tel had outstanding balances of $233,000 and $227,000 as of June 30, 2003 and 2002, respectively.

4. INCOME TAXES

The Company operates in several countries and is subject to various tax regulations and tax rates. The provisions for income taxes are computed based on income reported for financial statement purposes in accordance with the tax rules and regulations of the taxing authorities where the income is earned.

The provision (benefit) for income taxes consists of the following for the years ended June 30 (in thousands):

	2003	2002	2001
Income (loss) before provision (benefit) for income taxes:			
United States	$ 196	$ (295)	$ 2,871
Foreign	(1,088)	454	(1,598)
Total	$ (892)	$ 159	$ 1,273
Provision (benefit) for income taxes:			
Current			
United States	$	$ (141)	$ (100)
Foreign			4
Total provision (benefit) for income taxes	$	$ (141)	$ (96)

A reconciliation of the U.S. Federal statutory rate to the effective tax rate for the years ended June 30 was as follows:

	2003	2002	2001
Federal statutory rate	34%	34%	34%
State Taxes, net of Federal benefit	0	2	2
Valuation allowance	(34)	(36)	(36)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities. Temporary differences, which are all deferred tax assets, were as follows (in thousands):

	June 30, 2003	June 30, 2002
Net operating loss carryfowards	$ 20,875	$ 17,661
Alternative minimum tax credits	432	432
Foreign tax credit	325	325
Reserve for returns	852	761
Depreciation and amortization	199	238
Royalty reserves	145	105
Inventory reserves	36	40
Nondeductible accruals	286	310
Allowance for bad debts	19	29
Valuation allowance	(23,169)	(19,901)

	$	$

A valuation allowance equal to the aggregate amount of deferred tax assets has been established until such time as realizability is more likely than not.

For U.S. tax reporting purposes, the Company has net operating loss carryforwards (NOL) of approximately $58,000,000. However, of the amount available through 2013 and 2020, $20,100,000 of the NOL relates to deductions associated with the exercise of stock options. The tax benefit of approximately $7,236,000 associated with this stock option deduction will be recorded as additional paid-in capital when realized. The NOL carryforwards may be reduced in future years, without financial statement benefit, to the extent of intercompany dividends received from foreign subsidiaries. Also, the NOL carryforwards are subject to review and possible adjustment by taxing authorities. In addition, the Company has approximately $432,000 in U.S. federal alternative minimum tax credits and $325,000 in foreign tax credits, which may be utilized in the future to offset any regular corporate income tax liability.

5. CAPITAL TRANSACTIONS

Stock Option Plan

The Company has a Stock Option Plan for officers, directors, and employees of the Company. Under the terms of this plan the Board of Directors has the sole authority to determine the employees to whom options and awards are granted, the type, size and terms of the awards, the timing of the grants, the duration of the exercise period and any other matters arising under the plan. The common stock incentives may take the form of incentive stock options and nonqualified stock options. The Company s 1987 plan, which has expired, covered a maximum of 700,000 shares of common stock, of which options for the purchase of 2,000 shares remain outstanding and exercisable. In February 1997, the Company s Board of Directors approved a new stock option plan covering a maximum of 600,000 shares of common stock, which was subsequently amended to 5,000,000 through shareholder amendments in February 1999, January 2000 and November 2000. There were options on 2,613,011 net shares granted under this plan as of June 30, 2003. Of these options granted, 2,472,111 have been exercised. Any options cancelled are available for future grants. No options granted have expired.

Stock Option Exchange

On March 18, 2003, a committee of the Company s board of directors comprised solely of independent directors, approved a Stock Option Exchange Program. The program provides for a small number of optionees who were previously awarded options to purchase shares of common stock under the Company s 1997 Stock Option Plan to exchange them for options to purchase an equal number of shares outside the Company s Stock Option Plan. The options to purchase an aggregate 2,137,939 shares of common stock have a weighted average price per share of $5.95. Replacement options were issued six months and one day after the date of cancellation on November 18, 2003 of the existing options and were issued at an exercise price per share equal to the fair market value of the Company s common stock as quoted on the OTC Bulletin Board on the date of grant of $.08 per share and expire ten years after the date of grant. No compensation expense was recognized as a result of this exchange.

Restricted and Non-Qualified Stock Options

In addition to stock options granted under the terms of the Stock Option Plan, the Board of Directors has the sole authority to grant employees, officers and directors incentive stock options and non-qualified stock options outside the Stock Option Plan. The Board of Directors determines the type, size and terms of the grants, timing of the grants, the duration of the exercise period and any other matters pertaining to options or awards granted outside of the Stock Option Plan. There were options on 355,000 net shares granted outside the Stock Option Plan as of June 30, 2003.

The share information for all plans is summarized below:

	Incentive Stock Options	Non-Qualified Stock Options		Weighted Average Exercise Price
Outstanding June 30, 2000	2,210,556	497,000	$	6.72
Granted	310,000	75,000		1.06
Cancelled	(228,167)	(527,500)		6.49
Outstanding June 30, 2001	2,292,389	44,500	$	5.77
Adjustment (1)	(2,105,045)	2,105,045		
Cancelled	(36,050)	(27,000)		5.86
Outstanding June 30, 2002	151,294	2,122,545	$	5.89
Granted	10,000	300,000		.05
Cancelled	(73,394)	(2,067,545)		5.86
Outstanding June 30, 2003	87,900	355,000	$	1.95

(1) Adjustment reflects options disclosed previously as incentive that should have been recorded as non-qualified.

The following tables summarize information concerning currently outstanding and exercisable stock options at June 30, 2003:

Options Outstanding					
Exercise Prices					
Range			Weighted Average	Number of Shares	Weighted Average Remaining Contractual Life
$	0.05	$	0.05	310,000	9.4 years
$	1.75	$	1.75	1,000	3.3 years
$	3.06 - 3.38	$	3.29	1,400	3.6 years
$	5.51 - 6.00	$	5.66	97,500	6.6 years
$	8.73	$	8.73	33,000	5.7 years
				442,900	

Options Exercisable				
Exercise Prices				
Range			Weighted Average	Number of Shares
$	0.05	$	0.05	310,000
$	1.75	$	1.75	1,000
$	3.06 - 3.38	$	3.29	1,400
$	5.51 - 6.00	$	5.66	97,500
$	8.73	$	8.73	33,000
				442,900

The weighted average fair value of options granted in fiscal 2003 was $.05 and fiscal 2001 was $1.06. No options were granted in fiscal 2002. Because the fair value provisions have not been applied to options granted prior to June 30, 1995, the resulting pro forma compensation cost

(See Note 1) may not be representative of that to be expected in future years.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions were used to estimate the fair value of options:

	2003	2002	2001
Risk-free interest rate	4.00%	5.00%	5.00%
Expected life	10 years	5 years	5 years
Expected volatility	220%	150%	150%
Expected dividend yield	None	None	None

6. COMMITMENTS AND CONTINGENCIES

RTL Shopping S. A.

The Company has been named in a lawsuit filed in France brought by RTL9, a French cable TV station. The action seeks damages in the approximate amount of 20 million French Francs, or approximately $2.8 million. Initially, RTL9 was named as a defendant in a suit brought by a competitor of K-tel Marketing Ltd. alleging that RTL9 ran a commercial for K-tel Marketing which presented a product under brand names alleged to infringe on the competitor s own trademarks and also translated an English language script indicating that the product was just like or as good as others into better than in French, contrary to French law. The suit alleged trademark infringement, unfair competition, illicit comparative advertising and passing off. RTL9 then sued K-tel Marketing on October 4, 2000, pursuant to an indemnification provision the parties had entered into. Subsequently, K-tel Marketing went into liquidation and RTL9 filed a suit in March 2000 against K-tel International, Inc. under its agreement to guarantee payment for the commercial time. On May 28, 2001, RTL9 presented documents in court identifying K-tel International (USA), Inc. as a target of its claim. On September 3, 2001, the Company filed documents disputing the claim and advising the court of K-tel (USA) s Chapter 7 bankruptcy filing.

After the Company advised the Court that RTL9 had no basis for a complaint against the Company, RTL9 proposed to drop its lawsuit. On September 23, 2003, RTL9 and the Company signed an agreement terminating the suit. The final disposition of the lawsuit was confirmed by the Court at a trial hearing involving only the two remaining parties to the lawsuit.

K-tel International, Inc. vs. Tristar Products, Inc.

On March 14, 2000, K-tel and its subsidiary in Germany commenced an action for breach of express and implied warranties against Defendant Tristar Products, Inc. This action arose out of Tristar s sale to K-tel of a defective home exercise product called the BunBlaster for resale in Germany, Austria and Switzerland. By written contract, Tristar has agreed to indemnify K-tel for injuries and damages arising out of the resale of those goods.

On April 30, 2001, Tristar also asserted a patent and trademark/ trade-dress counterclaim against K-tel for allegedly passing off a product called the K-tel Hook and Hang while allegedly a distributor of the original patented Tristar Hook and Hang product. The Company denies the allegation because it never was a distributor of this or any similar product.

On December 30, 2004, a Mutual General Release and Settlement Agreement was signed by K-tel and Tristar, whereby both Companies agreed to mutual releases and Tristar agreed to pay K-tel $350,000. The payment of $350,000 was received February 18, 2005.

Other Litigation and Disputes

K-tel and its subsidiaries are also involved in other legal actions in the ordinary course of their business. With all litigation matters, management considers the likelihood of loss based on the facts and circumstances. If management determines that a loss is probable and the amount of loss can be reasonably estimated, such amount is recorded as a liability. Although the outcome of any such legal actions cannot be predicted, in the opinion of management there is currently no legal proceeding pending or asserted against or involving K-tel for which the outcome is likely to have a material adverse effect upon the consolidated financial position or results of operations of K-tel.

Leases

The Company has entered into several office and warehouse leases which expire through 2005. Commitments under these leases are $210,576 in 2004, and $46,490 in 2005. Rental expense was $253,523 in 2003, $216,327 in 2002, and $654,000 in 2001.

7. SIGNIFICANT CUSTOMERS AND RELATED PARTY TRANSACTIONS

Three customers, Madacy Entertainment Group, Inc., Anderson Merchandisers and Handleman Company accounted for approximately 19.2%, 14.9% and 11.5% respectively, of K-tel s revenue for the year ended June 30, 2003. The loss of, or a substantial reduction in, business from any of these customers would have a material adverse effect on the Company.

See Note 3 for information regarding debt transactions with related parties.

The Company purchased approximately $463,000 in the year ended June 30, 2003, $366,000 in the year ended June 30, 2002 and $574,000 in the year ended June 30, 2001 of music entertainment and consumer convenience products from K-5, the Company s largest shareholder, which is controlled by Philip Kives, Chairman of the Board, President and Chief Executive Officer of K-tel. There were trade payables to K-5 of $371,000 at June 30, 2003, $291,000 at June 30, 2002 and $285,000 at June 30, 2001.

The Company had no sales of consumer convenience products to K-5 during the years ended June 30, 2003 and 2002, and sales of $13,000 during the year ended June 30, 2001. There was a balance receivable from K-5 at June 30, 2003 of $73,000, June 30, 2002 of $129,000, and June 30, 2001 of $109,000. No interest was charged on the related outstanding balances during fiscal years 2003, 2002 and 2001.

8. RETIREMENT PLANS

Pension Plan

The Company has a pension plan for its U.K. employees. Company contributions to the Plan on behalf of eligible employees were terminated effective February 15, 2001 and all benefit accruals under the Plan ceased at that time. Summary plan information is as follows:

	(In Thousands) Pension Benefits	
	2003	**2002**
Net periodic cost:		
Interest cost	$ 23	$ 19

Expected return on assets		(63)		(10)
Amortization of transition amount		(15)		(13)
Actuarial loss				
Net periodic benefit cost	$	(55)	$	(4)
Change in benefit obligation:				
Benefit obligation at beginning of year	$	417		
Interest cost		23		
Actuarial loss		324		
Benefit obligation at end of year	$	764		
Change in plan assets:				
Fair value of plan assets at beginning of year	$	601		
Actual return on plan assets	$	111		
Fair value of plan at end of year	$	712		

The Company is not expected to contribute to the plan in fiscal 2004.

The Company s pension plan asset allocations are as follows at June 30:

	Percentage of Plan Assets	
	2004	2003
Asset category:		
Short-tem liquid investments	100%	100%

The Company s investment strategy with respect to pension plan assets is to continue to hold the plan assets in a deposit administration fund, which is similar to a bank account. Interest is added to the fund at a rate declared by Swiss Life.

(In Thousands)		2003
Reconciliation of funded status:		
Funded status	$	(51)
Unrecognized actuarial loss		180
Unrecognized transaction obligation		(183)
Unfunded accrued pension cost	$	(54)

		2003
Statement of financial position:		
Unfunded accrued pension cost	$	(54)
Additional minimum liability		
Accumulated other comprehensive income		
Recognized amount	$	(54)

At June 30, 2003, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected benefit obligation in excess of plan assets, and pension plans with an accumulated benefit obligation in excess of plan assets, were are follows:

	(In thousands)			
	Project Benefit Obligation Exceeds the Fair Value of Plan s Assets June 30, 2003		Accumulated Benefit Obligation Exceeds the Fair Value of Plan s Assets June 30, 2003	
Projected benefit obligation	$	764	$	764
Accumulated benefit obligation		764		764
Fair Value of plan assets		712		712

The Company s accumulated benefit obligation of $764,000 at June 30, 2003 exceeded the fair value of the plan s assets at June 30, 2003. This amount has been accrued as of June 30, 2003; there was no additional minimum liability in 2003.

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC COST FOR THE YEARS ENDED JUNE 30:

	2003	2002
Discount rate	9%	5%
Expected return on plan assets	5%	5%
Rate of compensation increase	0%	0%

WEIGHTED-AVERAGE ASSUMPTION USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:

	2003
Discount rate	5%
Rate of compensation increase	N/A

Money Purchase Plan

The Company s U.K. subsidiaries contribute amounts for their employees to a money purchase defined contribution plan. The Company contributed $51,000 and $26,000 for the years ended June 30, 2003 and 2002.

9. BUSINESS SEGMENT AND GEOGRAPHIC AREA DATA

The Company markets and distributes entertainment products internationally and through its operating subsidiaries. K-tel s businesses are organized, managed and internally reported as three segments: retail music sales, music licensing and other, which consists primarily of e-commerce (which was closed in the fourth quarter of fiscal 2002). These segments are based on differences in products, customer type and sales and distribution methods. The Company s consumer product operations have been discontinued and are presented in the accompanying financial statements as discontinued operations and are therefore not included in the segment information.

The retail music segment consists primarily of the sales of pre-recorded music both from the Company s music master catalog and under licenses obtained from other record companies. The Company sells compact discs and DVD s directly to retailers, wholesalers and rack service distributors which stock and manage inventory within music departments for retail stores.

In the licensing segment, the Company licenses the rights to its master music catalog, consisting of original recordings and re-recordings of music from the 1950 s through today, to third parties world-wide for use in albums, films, television programs, and commercials, for either a flat fee or a royalty based on the number of units sold.

Operating profits or losses of these segments include an allocation of general corporate expenses. Depreciation and amortization and capital additions are not significant and have therefore been excluded from presentation.

Certain financial information on the Company s continuing operating segments is as follows:

BUSINESS SEGMENT INFORMATION

Fiscal Years Ended June 30, (in thousands)		**Music**	**Licensing**	**Other**	**Corporate Eliminations**	**Total Company**
Net Sales	2003	$ 4,454	$ 2,780	$		$ 7,234
	2002	3,773	3,118			6,891
	2001	14,202	3,710	365	(763)	17,514
Operating Income (Loss)	2003	$ (1,010)	$ 1,159	$		$ 149
	2002	(1,439)	1,393			(46)
	2001	(7,749)	425	(2,156)		(9,480)
Assets	2003	$ 2,900	$ 2,128	$ 273		$ 5,301
	2002	2,679	1,668	121	142	4,610
	2001	1,501	1,650	443	238	3,832

GEOGRAPHIC INFORMATION

Fiscal Years Ended June 30, (in thousands)		United States	Europe	Total
Net Sales	2003	$ 4,949	$ 2,285	$ 7,234
	2002	3,949	2,942	6,891
	2001	13,914	3,600	17,514
Assets	2003	$ 3,889	$ 1,412	$ 5,301
	2002	2,792	1,818	4,610
	2001	2,042	1,790	3,832

10. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB issued Interpretation (FIN 46R), *Consolidation of Variable Interest Entities.* FIN 46R is an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* and addresses consolidation by business enterprises of variable interest entities. FIN 46R applies to variable interest entities created or obtained after January 31, 2003 and it applies in the first fiscal year or interim period beginning after March 15, 2004, to variable interest entities in which an enterprise holds a variable interest that is acquired before February 1, 2003. This pronouncement will have an effect on the Company s consolidated financial position and results of operations as the Company will consolidate a variable interest entity in the quarter ending March 31, 2004.

In December 2002, the FASB issued Statement 148 (FAS 148), *Accounting for Stock-Based Compensation Transition and Disclosure.* FAS 148 amends the disclosure and certain transition provisions of Statement 123, *Accounting for Stock-Based Compensation.* Its disclosure provisions, which apply to all entities with employee stock-based compensation, are effective for fiscal years ending after December 15, 2002. New interim period disclosures are required in financial statements for interim periods beginning after December 15, 2002. This pronouncement is not anticipated to have a material effect on the Company s consolidated financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 addresses the disclosure requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that is has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for the Company for its quarter ended December 31, 2002. The liability recognition requirement is applicable prospectively to all guarantees issued or modified after December 31, 2002. This pronouncement is not anticipated to have a material effect on the Company s consolidated financial position or results of operations.

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 146 (SFAS 146), *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 provides financial accounting and reporting guidance for costs associated with exit or disposal activities, including one-time termination benefits, contract termination costs other than for a capital lease, and costs to consolidate facilities or relocate employees. This statement is effective for exit or disposal activities that are initiated after December 31, 2002. Management does not believe this pronouncement will have a material effect on the Company s consolidated financial position and results of operations.

In May 2003, the FASB issued Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Statement 150 changes the classifications in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of Statement 150 is not anticipated to have an impact on the Company s consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*, which replaced SFAS No. 123 and superseded APB 25. SFAS No. 123R addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company s equity instruments or that may be settled by the issuance of such equity instruments. Under SFAS No. 123R, companies will no longer be able to account for the share-based compensation transactions using the intrinsic method in accordance with APB 25 but will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of operations. SFAS No. 123R is effective beginning in the Company s first quarter of fiscal year 2006. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. The Company has begun, but has not completed, evaluating the impact of the adoption of SFAS 123R on its results of operations. In connection with evaluating the impact of SFAS 123R, the Company is considering the potential implementation of different valuation methods to determine the fair value of share-based compensation. The Company believes the adoption of SFAS 123R will not have a material impact on our results of operations, regardless of the valuation method used.

11. RESTATEMENTS

In September 2004, the Company discovered that the former Chief Financial Officer of its UK subsidiary misappropriated funds from the Company s UK subsidiary and a customer of such subsidiary. The Company terminated the employee, undertook a full-scale investigation of the matter, retained a forensic auditing firm and dismissed the accounting firm in the UK that audited the UK subsidiary s financial books and records. Based upon the estimates of the Company s forensic auditor, it was determined that the former employee misappropriated approximately $914,200 from the Company s UK subsidiary and approximately $343,588 from a customer of such subsidiary beginning approximately in January 2001 and continuing until September 2004. Further, the Company spent approximately $150,862 investigating the misappropriation. Through negotiations with the former employee, the Company s UK subsidiary and its customer have recovered an aggregate of approximately $1,493,076 and interest of approximately $1,919. Approximately $99,640 remains outstanding. The Company s UK subsidiary has received a deed of guarantee in connection with this remaining obligation and it expects to collect the remaining amount owed on or before February 15, 2008.

The effect of the misappropriation was to overstate product costs by $9,000, $21,000, $24,000 and $27,000 and selling and general and administrative expenses by $14,000, $10,000, $32,000 and $13,000 for the quarters ending September 30, 2002, December 31, 2002, March 31, 2003 and June 30, 2003, respectively.

For the fiscal year ending June 30, 2002, the misappropriation understated sales by $16,000 in the quarter ending September 30, 2001. Product costs were overstated by $74,000, $10,000, $35,000 and $13,000 and selling and general and administrative expenses by $102,000, $9,000, $16,000 and $11,000 for the quarters ending September 30, 2001, December 31, 2001, March 31, 2002 and June 30, 2002, respectively.

Statements of operations previously reported for each of the quarters of fiscal year 2003 and 2002 in the Company s Form 10-Qs are restated as follows:

Quarterly Financial Information (Unaudited)

Three Months Ended,

AS FILED	September 30, 2002		December 31, 2002		March 31, 2003		June 30, 2003	
Total revenues	$	1,498	$	1,874	$	1,923	$	1,939
Gross profit	$	899	$	977	$	933	$	1,244
Total cost and expenses	$	997	$	978	$	1,109	$	918
Income (loss) from operations	$	(98)	$	(1)	$	(174)	$	326
Net income (loss)	$	(508)	$	(389)	$	(439)	$	348
Basic and diluted net income (loss) per common share	$	(.04)	$	(.03)	$	(.03)	$	.03
Shares used in computing basic and dilutednet loss per common share		13,654		13,654		13,654		13,654

AS RESTATED	Three Months Ended, September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003
Total revenues	$ 1,498	$ 1,874	$ 1,923	$ 1,939
Gross profit	$ 908	$ 998	$ 957	$ 1,271
Total cost and expenses	$ 983	$ 968	$ 1,077	$ 957
Income (loss) from operations	$ (75)	$ 30	$ (118)	$ 312
Net income (loss)	$ (485)	$ (358)	$ (383)	$ 334
Basic and diluted net income (loss) per common share	$ (.04)	$ (.03)	$ (.03)	$ .02
Shares used in computing basic and dilutednet loss per common share	13,654	13,654	13,654	13,654

Quarterly Financial Information (Unaudited)

AS FILED	Three Months Ended, September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
Total revenues	$ 1,381	$ 2,104	$ 1,766	$ 1,624
Gross profit	$ 859	$ 1,210	$ 1,047	$ 1,274
Total cost and expenses	$ 1,257	$ 1,062	$ 1,175	$ 1,228
Income (loss) from operations	$ (398)	$ 148	$ (128)	$ 46
Net income (loss)	$ (504)	$ (107)	$ (307)	$ 932
Basic and diluted net income (loss) per common share	$ (.04)	$ (.01)	$ (.02)	$ .07
Shares used in computing basic and dilutednet loss per common share	13,654	13,654	13,654	13,654

AS RESTATED	Three Months Ended, September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
Total revenues	$ 1,397	$ 2,104	$ 1,766	$ 1,624
Gross profit	$ 949	$ 1,220	$ 1,082	$ 1,287
Total cost and expenses	$ 1,155	$ 1,053	$ 1,159	$ 1,217
Income (loss) from operations	$ (206)	$ 167	$ (77)	$ 70
Net income (loss)	$ (312)	$ (88)	$ (256)	$ 956
Basic and diluted net income (loss) per common share	$ (.02)	$ (.01)	$ (.02)	$ .07
Shares used in computing basic and dilutednet loss per common share	13,654	13,654	13,654	13,654

SCHEDULE II

K-TEL INTERNATIONAL, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Years ended June 30,

(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses or Net Sales	Charged to Other Accounts (1)	Deductions	Balance at End of Period
Allowance for Doubtful Accounts					
2003	$ 68	$ 62	$ 9	$ (114)(2)	$ 25
2002	$ 33	$ 50	$ 5	$ (20)(2)	$ 68
2001	$ 1,416	$ (41)	$ (4)	$ (1,338)(2)	$ 33
Reserve for Returns					
2003	$ 46	$ 447	$	$ (273)	$ 220
2002	$ 50	$ 55	$ 6	$ (65)	$ 46
2001	$ 4,623	$ 45	$ (3)	$ (4,615)	$ 50

(1) Exchange rate change

(2) Uncollectible accounts written off, net of recoveries

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3.1	Restated Articles of Incorporation, as amended.*
3.2	Restated By-Laws (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1985 (File No. 1-07115)).
4	See Exhibits 3.1 and 3.2.
10.1	1987 Stock Incentive Plan (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1987 (File No. 1-07115)).
10.2	1997 Stock Option Plan (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1997 (File No. 1-07115)).
10.3	Form of Incentive Stock Option Agreement under the Company s 1997 Stock Option Plan (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2000 (File No. 1-07115)).
10.4	Form of Non-Qualified Stock Option Agreement under the Company s 1997 Stock Option Plan (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2000 (File No. 1-07115)).
10.5	Form of Non-Qualified Stock Option Agreement between the registrant and certain non-employee directors of the registrant, authorized effective November 27, 2002 (incorporated by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2003 (File No. 1-07115)).
10.6	Loan and Security Agreement between the Company and Foothill Capital Corporation dated November 19, 1997 (incorporated by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 1997 (File No. 1-07115)).
10.7	Amendment Number One to the Loan and Security Agreement between the Company and Foothill Capital Corporation dated March 30, 1998 (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (File No. 1-07115)).
10.8	Amendment Number Two to the Loan and Security Agreement between the Company and Foothill Capital Corporation dated September 23, 1998 (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (File No. 1-07115)).
10.9	Restated Amendment Number Two to the Loan and Security Agreement between the Company and Foothill Capital Corporation dated September 30, 1998 (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1998 (File No. 1-07115)).
10.10	Amendment Number Three to the Loan and Security Agreement between the Company and Foothill Capital Corporation dated September 22, 1999 (incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2000 (File No. 1-07115)).
10.11	Amendment Number Four to the Loan and Security Agreement between the Company and Foothill Capital Corporation dated May 15, 2000(incorporated by reference to the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2000 (File No. 1-07115)).
10.12	Amendment to Loan Agreement and Security Agreement between the Company and K-5 Leisure Products, Inc., as assignee of Foothill Capital Corporation dated February 12, 2002 (incorporated by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31,

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	2001 (File No. 1-07115)).
10.13	Credit Agreement between the Company and K-5 Leisure Products, Inc. dated September 27, 1999.*
10.14	$8,000,000 principal amount Note between the Company and K-5 Leisure Products, Inc. dated September 27, 1999.*
10.15	Amendment to Credit Agreement and Note between the Company and K-5 Leisure Products, Inc. dated February 12, 2002 (incorporated by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2001 (File No. 1-07115)).*
21	Subsidiaries of the Registrant.*
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14.
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14.
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed.