

MIMEDX GROUP, INC.

Form 10-Q

July 28, 2010

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Quarterly Period Ended June 30, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 0-52491  
MIMEDX GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Florida**  
(State or other jurisdiction of incorporation)

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

**811 Livingston Court, Suite B  
Marietta, GA**  
(Address of principal executive offices)

**30067**  
(Zip Code)

**(678) 384-6720**

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of July 27, 2010, there were 61,720,931 shares outstanding of the registrant's common stock.



**MIMEDX GROUP, INC.  
TABLE OF CONTENTS**

**Part I FINANCIAL INFORMATION**

Item 1. Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheets as of June 30, 2010, (unaudited) and December 31, 2009 3

Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2010 and 2009, and the period from inception (November 22, 2006) through June 30, 2010, (unaudited) 4

Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009, and the period from inception (November 22, 2006) through June 30, 2010, (unaudited) 5

Condensed Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2010, and for the period from inception (November 22, 2006) through the period June 30, 2010 (unaudited) 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 17

Item 3. Quantitative and Qualitative Disclosures About Market Risk 23

Item 4. Controls and Procedures 23

**Part II OTHER INFORMATION**

Item 1. Legal Proceedings 24

Item 1A. Risk Factors 24

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 24

Item 3. Defaults under Senior Securities 24

Item 4. Submission of Matters to a Vote of Security Holders 24

Item 5. Other Information 24

Item 6. Exhibits 25

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

**Table of Contents**

MIMEDX GROUP, INC. AND SUBSIDIARIES  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONDENSED CONSOLIDATED BALANCE SHEETS

| ASSETS   | June 30,<br>2010<br>(unaudited) | December 31,<br>2009 |
|--|---------------------------------|----------------------|
| Current assets:  |                                 |                      |
| Cash and cash equivalents  | \$ 2,728,205                    | \$ 2,653,537         |
| Trade Accounts Receivable  | 380,565                         |                      |
| Inventory  | 95,328                          | 30,920               |
| Prepaid expenses and other current assets  | 121,981                         | 121,277              |
| <br>   |                                 |                      |
| Total current assets   | 3,326,079                       | 2,805,734            |
| <br>   |                                 |                      |
| Property and equipment, net of accumulated depreciation of \$1,171,706 and \$948,445 (June and December, respectively)                           | 946,704                         | 1,049,597            |
| Goodwill   | 857,597                         | 857,597              |
| Intangible assets, net of accumulated amortization of \$1,798,640 and \$1,464,674 (June and December, respectively)                              | 4,263,360                       | 4,597,326            |
| Deferred financing costs   |                                 | 192,627              |
| Deposits and Other Long Term Receivables   | 92,500                          | 189,202              |
| <br>   |                                 |                      |
| Total assets   | \$ 9,486,240                    | \$ 9,692,083         |
| <br>   |                                 |                      |
| LIABILITIES AND STOCKHOLDERS EQUITY  |                                 |                      |
| Current liabilities:   |                                 |                      |
| Accounts payable & Accrued expenses  | \$ 1,261,289                    | \$ 629,349           |
| <br>   |                                 |                      |
| Total current liabilities  | 1,261,289                       | 629,349              |
| <br>   |                                 |                      |
| Long term convertible debt, face value \$3,472,000, less unamortized discount of \$550,748 and including accrued interest of \$69,604 (December) |                                 | 2,990,856            |
| <br>   |                                 |                      |
| Total liabilities  | 1,261,289                       | 3,620,205            |
| <br>   |                                 |                      |
| Commitments and contingency (Note 9)   |                                 |                      |
| <br>   |                                 |                      |
| Stockholders equity:   |                                 |                      |
| Preferred stock; \$.001 par value; 5,000,000 shares authorized and 0 (June and December) shares issued and outstanding                           |                                 |                      |

Edgar Filing: MIMEDX GROUP, INC. - Form 10-Q

|  |              |              |
|--|--------------|--------------|
| Common stock; \$.001 par value; 100,000,000 shares authorized; and 61,770,931 (June) and 50,002,887 (December) shares issued; 61,720,931 (June) and 49,952,887 (December) shares outstanding | 61,771       | 50,003       |
| Additional paid-in capital   | 54,434,441   | 46,454,482   |
| Treasury stock (50,000 shares at cost)   | (25,000)     | (25,000)     |
| Deficit accumulated during the development stage   | (46,246,261) | (40,407,607) |
| <br>   |              |              |
| Total stockholders' equity   | 8,224,951    | 6,071,878    |
| <br>   |              |              |
| Total liabilities and stockholders' equity   | \$ 9,486,240 | \$ 9,692,083 |

See notes to condensed consolidated financial statements

**Table of Contents**

MIMEDX GROUP, INC. AND SUBSIDIARIES  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             | Period from<br>Inception<br>(November 22,<br>2006)<br>through<br>June 30, 2010 |
|---|--------------------------------|-------------|------------------------------|-------------|--|
|   | 2010                           | 2009        | 2010                         | 2009        |  |
| REVENUES:   |                                |             |                              |             |  |
| Net Sales   | \$ 322,075                     | \$          | \$ 436,930                   | \$          | \$ 437,730   |
| OPERATING COSTS AND<br>EXPENSES:  |                                |             |                              |             |  |
| Cost of products sold   | 435,925                        |             | 815,513                      |             | 815,753  |
| Research and development<br>expenses  | 752,711                        | 773,517     | 1,325,115                    | 1,250,887   | 10,064,950   |
| Acquired in-process research<br>and development   |                                |             |                              |             | 7,177,000  |
| Selling, General and<br>Administrative expenses   | 1,831,236                      | 769,478     | 3,542,674                    | 3,163,330   | 24,186,681   |
| Gain on sale of assets  |                                |             |                              |             | (275,428)  |
| LOSS FROM<br>OPERATIONS   | (2,697,797)                    | (1,542,995) | (5,246,372)                  | (4,414,217) | (41,531,226)   |
| OTHER INCOME<br>(EXPENSE), net  |                                |             |                              |             |  |
| Financing expense<br>associated with issuance of<br>common stock for<br>registration rights waivers       |                                |             |                              |             | (1,305,100)  |
| Financing expense<br>associated with warrants<br>issued in connection with<br>convertible promissory note |                                |             |                              |             | (975,833)  |
| Net interest<br>(expense) income, net   | 1,228                          | (54,548)    | (592,282)                    | (55,310)    | (221,912)  |
| Change in fair value of<br>investment, related party  |                                |             |                              |             | (41,775)   |
| LOSS BEFORE INCOME<br>TAXES   | (2,696,569)                    | (1,597,543) | (5,838,654)                  | (4,469,527) | (44,075,846)   |
| Income taxes  |                                |             |                              |             |  |

|  |                |                |                |                |                 |
|--|----------------|----------------|----------------|----------------|-----------------|
| NET LOSS   | (2,696,569)    | (1,597,543)    | (5,838,654)    | (4,469,527)    | (44,075,846)    |
| Accretion of redeemable common stock and common stock with registration rights to fair value |                |                |                |                | (2,158,823)     |
| Loss attributable to common shareholders   | \$ (2,696,569) | \$ (1,597,543) | \$ (5,838,654) | \$ (4,469,527) | \$ (46,234,669) |
| Net loss per common share Basic and diluted  | \$ (0.04)      | \$ (0.04)      | \$ (0.10)      | \$ (0.11)      |                 |
| Shares used in computing net loss per common share Basic and diluted                         | 60,635,877     | 39,244,628     | 55,918,851     | 38,898,910     |                 |

See notes to condensed consolidated financial statements



**Table of Contents**

MIMEDX GROUP, INC. AND SUBSIDIARIES  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Six Months Ended<br>June 30, |                 | Period from<br>Inception<br>(November 22,<br>2006)<br>through<br>June 30, 2010 |
|---|------------------------------|-----------------|--|
|   | 2010                         | 2009            |  |
| Cash flows from operating activities:   |                              |                 |  |
| Net loss  | \$ (5,838,654)               | \$ (4,469,527)  | \$ (44,075,846)  |
| Adjustments to reconcile net loss to net cash flows from operating activities, net of effects of acquisition: |                              |                 |  |
| Gain on settlement of payables  |                              | (564,838)       | (584,969)  |
| (Gain)/loss on sale of equipment  |                              | 5,440           | (275,428)  |
| Acquired in-process research and development  |                              |                 | 7,177,000  |
| Depreciation  | 223,264                      | 227,935         | 1,178,341  |
| Amortization of intangible assets   | 333,966                      | 333,408         | 1,821,840  |
| Amortization of debt discount and deferred financing costs  | 499,610                      | 37,966          | 669,349  |
| Employee share-based compensation expense   | 460,756                      | 503,373         | 2,432,467  |
| Other share-based compensation expense  | 42,554                       | 396,429         | 800,646  |
| Financing expense associated with issuance of common stock for waivers of registration rights                 |                              |                 | 1,305,100  |
| Financing expense associated with warrants issued in connection with convertible promissory note              |                              |                 | 975,833  |
| Modifications of options and purchase of treasury stock   |                              |                 | 48,000   |
| Issuance of common stock for transaction fees   |                              |                 | 1,126,379  |
| Accrued interest on notes receivable, related party   |                              |                 | (48,894)   |
| Change in fair value of investment, related party   |                              |                 | 41,775   |
| Increase (decrease) in cash resulting from changes in:  |                              |                 |  |
| Accounts Receivable   | (380,565)                    |                 | (380,565)  |
| Inventory   | (64,408)                     |                 | (95,328)   |
| Prepaid expenses and other current assets   | (704)                        | (40,761)        | (42,903)   |
| Other assets  | 96,702                       |                 | 96,702   |
| Accounts payable and accrued expenses   | 726,919                      | 488,099         | 1,287,674  |
| Deferred interest income  |                              |                 | (43,200)   |
| <br>Net cash flows from operating activities  | <br>(3,900,560)              | <br>(3,082,476) | <br>(26,586,027)   |
| <br>Cash flows from investing activities:   |                              |                 |  |
| Purchase of equipment   | (120,367)                    | (37,432)        | (1,788,672)  |
| Proceeds from sale of assets  |                              | 6,580           | 366,830  |
| Cash paid in conjunction with sales of assets   |                              |                 | (86,332)   |
| Cash paid for intangible asset  |                              |                 | (100,000)  |
| Net costs related to the acquisition of SpineMedica Corp.   |                              |                 | (279,018)  |

|   |              |              |              |
|---|--------------|--------------|--------------|
| Net cash flows from investing activities  | (120,367)    | (30,852)     | (1,887,192)  |
| Cash flows from financing activities:   |              |              |              |
| Proceeds from convertible debt offering   |              | 3,472,000    | 3,472,000    |
| Proceeds from convertible promissory note   |              |              | 500,000      |
| Repayment of convertible promissory note  |              |              | (500,000)    |
| Proceeds from Series A preferred stock  |              |              | 14,016,000   |
| Proceeds from Series C preferred stock  |              |              | 3,855,000    |
| Proceeds from sale of common stock and warrants and common stock with registration rights | 785,000      | 525,000      | 7,602,507    |
| Proceeds from exercise of stock options   | 102,626      |              | 104,794      |
| Net Proceeds from exercise of warrants  | 3,207,969    |              | 3,207,969    |
| Offering costs paid in connection with convertible debt offering                          |              | (127,540)    | (138,040)    |
| Offering costs paid in connection with Series A preferred stock offering                  |              |              | (918,806)    |
| Net cash flows from financing activities  | 4,095,595    | 3,869,460    | 31,201,424   |
| Net change in cash  | 74,668       | 756,132      | 2,728,205    |
| Cash, beginning of period   | 2,653,537    | 864,768      |              |
| Cash, end of period   | \$ 2,728,205 | \$ 1,620,900 | \$ 2,728,205 |
| Supplemental disclosure of cash flow information:   |              |              |              |
| Cash paid for interest  | \$           | \$           | \$           |
| Cash paid for income taxes  | \$           | \$           | \$           |

## Supplemental disclosure of non-cash financing activity:

During the six months ended June 30, 2010 the Company converted its outstanding convertible debt and accrued interest to equity by issuing 7,135,114 shares of common stock

See notes to condensed consolidated financial statements

**Table of Contents**

MIMEDX GROUP, INC. AND SUBSIDIARIES  
 (A DEVELOPMENT STAGE ENTERPRISE)  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 PERIOD FROM INCEPTION (NOVEMBER 22, 2006) THROUGH JUNE 30, 2010

| Convertible<br>Preferred Stock<br>Series A | Convertible<br>Preferred Stock<br>Series B |        | Convertible<br>Preferred Stock<br>Series C |        | Common Stock |        | Additional<br>Paid-in Treasury<br>Capital | Stock<br>Subscriptions<br>Receivable | Note<br>Receivable<br>Related<br>party |
|--|--|--------|--|--------|--------------|--------|---|--------------------------------------|--|
|  | Shares                                     | Amount | Shares                                     | Amount | Shares       | Amount |   |                                      |  |
| \$   |  | \$     |  | \$     |              | \$     | \$  | \$                                   | \$                                     |
|  |  |        |  |        | 12,880,000   | 12,880 |   |                                      |  |
|  |  |        |  |        |              |        | 13,409                                    |                                      |  |
|  |  |        |  |        |              |        | 17,980                                    |                                      |  |
|  |  |        |  |        | 1,120,000    | 1,120  | 894,880                                   |                                      | (2,000,000)                            |
| 14,016,000                                 |  |        |  |        |              |        | (918,806)                                 | (1,233,750)                          | (7,000,000)                            |

|            |             |             |             |             |            |        |           |             |         |
|------------|-------------|-------------|-------------|-------------|------------|--------|-----------|-------------|---------|
| 14,016,000 |             |             |             |             | 14,000,000 | 14,000 | 7,463     | (1,233,750) | (2,007, |
|            |             |             |             |             |            |        | 649,783   |             |         |
|            |             |             |             |             |            |        | 158,247   |             |         |
|            |             |             |             |             |            |        |           | 1,233,750   |         |
|            |             |             |             |             |            |        |           |             | (41,    |
|            | 5,922,397   | 7,402,996   |             |             | 2,911,117  | 2,911  | 2,316,908 |             | 2,048,  |
|            |             |             | 1,285,001   | 3,855,000   |            |        |           |             |         |
|            |             |             |             |             |            |        | 116,000   |             |         |
|            |             |             |             |             | 1,200      | 1      | 2,159     |             |         |
| 11,257,996 | (5,922,397) | (7,402,996) | (1,285,001) | (3,855,000) | 926,168    | 926    | (926)     |             |         |
|            |             |             |             |             | 205,851    | 206    | 1,126,173 |             |         |

**Table of Contents**

|  | Convertible Preferred Stock |              | Convertible Preferred Stock |          | Common Stock |        | Additional Paid-in Capital | Stock Subscriptions Related to Development Stage | Deficit Accumulated During the Period | Total        |
|--|-----------------------------|--------------|-----------------------------|----------|--------------|--------|----------------------------|--|---------------------------------------|--------------|
|  | Series A                    |              | Series B                    | Series C | Shares       | Amount |                            |  |                                       |              |
|  | Shares                      | Amount       | Shares                      | Amount   | Shares       | Amount |                            |  |                                       |              |
| Conversion of Preferred stock  | (18,420,198)                | (25,273,996) |                             |          | 18,420,198   | 18,420 | 25,255,576                 |  |                                       |              |
| Common stock issued in connection with purchase of license agreement       |                             |              |                             |          | 400,000      | 400    | 2,595,600                  |  |                                       | 2,596,000    |
| Net loss for the period  |                             |              |                             |          |              |        |                            |  | (17,371,475)                          | (17,371,475) |
| Balances, March 31, 2008   |                             |              |                             |          | 36,864,534   | 36,864 | 32,226,983                 |  | (18,033,844)                          | 14,230,003   |
| Employee share-based compensation expense                                  |                             |              |                             |          |              |        | 945,062                    |  |                                       | 945,062      |
| Other share-based compensation expense                                     |                             |              |                             |          |              |        | 130,076                    |  |                                       | 130,076      |
| Cashless exercise of stock warrants  |                             |              |                             |          | 417,594      | 418    | (418)                      |  |                                       |              |
| Sale of warrants in connection with private placement of redeemable common |                             |              |                             |          |              |        | 595,073                    |  |                                       | 595,073      |

|  |            |        |            |              |              |
|--|------------|--------|------------|--------------|--------------|
| stock  |            |        |            |              |              |
| Exercise of stock options  | 57,500     | 58     | (52)       |              | 6            |
| Accretion of redeemable common stock and common stock with registration rights to fair value |            |        |            | (2,158,823)  | (2,158,823)  |
| Warrants issued in connection with the amendment of private placement of common stock        |            |        | 334,100    |              | 334,100      |
| Net loss for the period  |            |        |            | (11,919,271) | (11,919,271) |
| Balances, March 31, 2009   | 37,339,628 | 37,340 | 34,230,824 | (32,111,938) | 2,156,226    |
| Employee share-based compensation expense  |            |        | 363,457    |              | 363,457      |
| Other share-based compensation expense   |            |        | 117,689    |              | 117,689      |
| Beneficial conversion feature recognized on convertible debt                                 |            |        | 676,500    |              | 676,500      |
| Warrants issued to placement   |            |        | 98,574     |              | 98,574       |

agents in  
conjunction  
with  
convertible  
debt

Exercise of  
stock options

20,000

20

(18)

2

7

---

**Table of Contents**

|   | Convertible                       | Convertible                       | Convertible                       | Common Stock |        | Additional<br>Paid-in<br>Capital | Treasury<br>Stock | Notes<br>Receivable | Other<br>Assets<br>Related<br>to<br>Development<br>Stage | Deficit<br>Accumulated<br>During the<br>Period | Total     |
|---|-----------------------------------|-----------------------------------|-----------------------------------|--------------|--------|----------------------------------|-------------------|---------------------|--|--|-----------|
|   | Preferred<br>Stock<br>Series<br>A | Preferred<br>Stock<br>Series<br>B | Preferred<br>Stock<br>Series<br>C | Shares       | Amount |                                  |                   |                     |  |  |           |
|   | Shares                            | Shares                            | Shares                            | Amount       | Amount |                                  |                   |                     |  |  |           |
| Common stock issued for waivers of registration rights                |                                   |                                   |                                   | 2,490,000    | 2,490  | 1,302,610                        |                   |                     |  |  | 1,305,100 |
| Reclassification of common stock with registration rights             |                                   |                                   |                                   | 1,905,000    | 1,905  | 3,759,345                        |                   |                     |  |  | 3,761,250 |
| Common stock issued for accrued directors fees                        |                                   |                                   |                                   | 162,750      | 163    | 81,212                           |                   |                     |  |  | 81,375    |
| Common stock issued for accrued executive compensation                |                                   |                                   |                                   | 187,644      | 187    | 93,635                           |                   |                     |  |  | 93,822    |
| Common Stock issued in connection with purchase of license agreement  |                                   |                                   |                                   | 100,000      | 100    | 70,900                           |                   |                     |  |  | 71,000    |
| Sale of common stock and warrants (net of \$42,000 of offering costs) |                                   |                                   |                                   | 7,697,865    | 7,698  | 4,569,021                        |                   |                     |  |  | 4,576,719 |
| Common stock issued for services in                                   |                                   |                                   |                                   | 100,000      | 100    | 41,900                           |                   |                     |  |  | 42,000    |



|   |    |    |    |            |           |               |             |             |                              |
|---|----|----|----|------------|-----------|---------------|-------------|-------------|------------------------------|
| conjunction with private placement                              |    |    |    |            |           |               |             |             |                              |
| Warrants issued in conjunction with convertible promissory note |    |    |    |            | 975,833   |               |             |             | 975,833                      |
| Modification of stock options and purchase of treasury stock    |    |    |    |            | 73,000    | (25,000)      |             |             | 48,000                       |
| Net loss for the period   |    |    |    |            |           |               |             | (8,295,669) | (8,295,669)                  |
| Balances, December 31, 2009                                     | \$ | \$ | \$ | 50,002,887 | \$ 50,003 | \$ 46,454,482 | \$ (25,000) | \$          | \$ (40,407,607) \$ 6,071,878 |
| Employee share-based compensation expense (unaudited)           |    |    |    |            |           | 460,756       |             |             | 460,756                      |
| Other share-based compensation expense (unaudited)              |    |    |    |            |           | 42,554        |             |             | 42,554                       |
| Sale of common stock and warrants (unaudited)                   |    |    |    | 1,308,332  | 1,308     | 783,692       |             |             | 785,000                      |
| Exercise of stock options (unaudited)                           |    |    |    | 105,250    | 106       | 102,520       |             |             | 102,626                      |
| Exercise of warrants, net of placement fees (unaudited)         |    |    |    | 3,219,348  | 3,219     | 3,204,750     |             |             | 3,207,969                    |

|  |    |    |               |           |               |             |             |                 |              |
|--|----|----|---------------|-----------|---------------|-------------|-------------|-----------------|--------------|
| Shares issued<br>in conjunction<br>with<br>conversion of<br>convertible<br>debt<br>(unaudited) |    |    | 7,135,114     | 7,135     | 3,385,687     |             |             |                 | 3,392,822    |
| Net loss for the<br>period<br>(unaudited)  |    |    |               |           |               |             | (5,838,654) | (5,838,654)     |              |
| Balances,<br>June 30, 2010<br>(unaudited)  | \$ | \$ | \$ 61,770,931 | \$ 61,771 | \$ 54,434,441 | \$ (25,000) | \$          | \$ (46,246,261) | \$ 8,224,951 |

See notes to condensed consolidated financial statements

**Table of Contents**

MIMEDX GROUP, INC.  
(A DEVELOPMENT STAGE ENTERPRISE)  
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2010 AND 2009 AND THE PERIOD FROM  
INCEPTION  
(NOVEMBER 22, 2006) THROUGH JUNE 30, 2010

**1. Basis of Presentation:**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations for the periods presented have been included. Operating results for the six months ended June 30, 2010 and 2009, are not necessarily indicative of the results that may be expected for the fiscal year. The balance sheet at December 31, 2009, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

You should read these condensed consolidated financial statements together with the historical consolidated financial statements of the Company for the period ended December 31, 2009, and year ended March 31, 2009, and the period from inception (November 22, 2006) through December 31, 2009, included in our Annual Report on Form 10-K for the period ended December 31, 2009, filed with the Securities and Exchange Commission ( SEC ) on March 30, 2010. On March 31, 2008, MiMedx Group, Inc., a Florida Corporation, and Alynx merged. As a result of this transaction, MiMedx Group, Inc. became the surviving corporation. The Company refers to MiMedx Group, Inc., a development stage company, as well as its two operating subsidiaries: MiMedx, Inc. and SpineMedica, LLC ( SpineMedica ).

MiMedx acquired a license for the use, adoption and development of certain core technologies developed at the Shriners Hospital for Children and the University of South Florida Research Foundation. This technology focuses on biomaterials for soft tissue repair, such as tendons, ligaments and cartilage, as well as other biomaterial-based products for numerous other medical applications. The development of the licensed technologies requires continued research and development and, ultimately, the clearance or approval of the U.S. Food and Drug Administration ( FDA ) and/or foreign regulatory authorities in order for the Company to be able to generate revenues from the sale of its products. This process is expected to take three to six months, or sometimes longer, and there can be no assurance that the Company will be successful in its efforts to commercialize the licensed technology.

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

The Company operates in one business segment, Biomaterials, which includes the design, manufacture, and marketing of products for the Orthopedics and Spine market categories using the Company's two proprietary biomaterials CollaFix and HydroFix. The CollaFix products are assembled from a strong, collagen-fiber based technology that potentially could be used to augment the repair of soft-tissue and connective tissue injuries. The HydroFix products are constructed of a durable hydrogel. The first of such products is the HydroFix Vaso Shield, indicated as a cover for vessels following anterior vertebral surgery.

The Company is a development stage enterprise and will remain as such until significant revenues are generated, if ever.



**Table of Contents****2. Significant accounting policies:**

Please see the Company's 10-K filing for the fiscal year ended December 31, 2009 for a description of all significant accounting policies.

**Revenue Recognition***Sales Revenue*

The Company recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 605-10-S99, Revenue Recognition.

Sales revenue is generally recognized when the products are shipped or the services are completed. Advance payments received for products or services are recorded as deferred revenue and are generally recognized when the product is shipped or services are performed. The Company reduces sales revenue for estimated customer returns and other allowances. The Company recorded \$22,481 and \$0 for net sales returns provisions, respectively, for the three months ended June 30, 2010 and 2009. For the six months ended June 30, 2010 and 2009, there were net sales returns provisions of \$24,229 and \$0, respectively.

*Net loss per share*

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

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

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

|   | <b>Three Months ended</b> |                      | <b>Six Months ended</b> |                      |
|---|---------------------------|----------------------|-------------------------|----------------------|
|   | <b>June 30,</b>           |                      | <b>June 30,</b>         |                      |
|   | <b>2010</b>               | <b>June 30, 2009</b> | <b>2010</b>             | <b>June 30, 2009</b> |
| Net loss  | \$ (2,696,569)            | \$ (1,597,543)       | \$ (5,838,654)          | \$ (4,469,527)       |
| Denominator for basic earnings per share - weighted average shares                                  | 60,635,877                | 39,244,628           | 55,918,851              | 38,898,910           |
| Effect of dilutive securities: Stock options and warrants outstanding <sup>(a)</sup>                |                           |                      |                         |                      |
| Denominator for diluted earnings per share weighted average shares adjusted for dilutive securities | 60,635,877                | 39,244,628           | 55,918,851              | 38,898,910           |
| Loss per common share basic and diluted   | \$ (0.04)                 | \$ (0.04)            | \$ (0.10)               | \$ (0.11)            |

(a) Securities outstanding that were excluded from the computation, prior to the use of the treasury stock method, because they

would have  
been  
anti-dilutive are  
as follows:

**Table of Contents**

|                           | <b>June 30, 2010</b> | <b>December 31, 2009</b> |
|---------------------------|----------------------|--------------------------|
| Outstanding Stock Options | 7,935,650            | 6,182,500                |
| Outstanding Warrants      | 4,426,185            | 6,991,371                |
| Convertible Debt          |                      | 6,944,000                |
|                           | 12,361,835           | 20,117,871               |

**Goodwill**

The Company accounts for goodwill under the provisions of FASB ASC Topic 350, Intangibles – Goodwill and Other (ASC 350). Goodwill is not amortized, but is subject to impairment tests on an annual basis or at an interim date if certain events or circumstances indicate that the asset might be impaired. The most recent annual test as of December 31, 2009, indicated that goodwill was not impaired. There were no indicators of impairment as of June 30, 2010.

**Recently issued accounting pronouncements:**

In February 2010, the FASB issued authoritative guidance that amends the disclosure requirements related to subsequent events. This guidance includes the definition of a Securities and Exchange Commission filer, removes the definition of a public entity, redefines the reissuance disclosure requirements and allows companies to omit the disclosure of the date through which subsequent events have been evaluated. This guidance is effective for financial statements issued for interim and annual periods ending after February 2010. This guidance did not materially impact the Company's results of operations or financial position, but did require changes to the Company's disclosures in its financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13 (ASU 2009-13), which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified beginning in fiscal years on or after June 15, 2010. Early adoption is permitted. The Company does not expect the adoption of this standard to have any effect on its financial statements until or unless it enters into agreements covered by this standard.

**3. Liquidity and management's plans:**

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. For the period from inception (November 22, 2006) through June 30, 2010, the Company experienced net losses of \$46,234,669 (unaudited) and cash used in operations was \$26,586,027 (unaudited). In April 2010 the Company offered investors in our October 2009 private placement a discount if they exercised their warrants for common stock by May 1, 2010. This offer has resulted in raising \$3,200,000, net of placement fees, as of May 1, 2010. The aggregate proceeds include \$833,000 in common stock sold to the Chairman and CEO, \$20,850 to the President and Chief Operating Officer and \$20,833 to one other company director. As of June 30, 2010, the Company had \$2,728,205 of cash in the bank and has not emerged from the development stage. Assuming we receive no additional funds, we estimate that we have sufficient cash to operate until October 2010. In order to fund ongoing operations beyond that point, or to further accelerate and execute our business plan, we need to raise significant additional funds. In view of these matters, the Company's ability to continue as a going concern is dependent on our ability to secure additional financing sufficient to support our research and development activities and regulatory clearance or approval processes, as well as our investments in working capital and necessary capital expenditures. Since inception, the Company has financed its activities principally from the sale of equity securities and convertible debt. While the Company has been successful in the past in obtaining the necessary capital to support its operations, there is no assurance that the Company will be able to obtain government grants or additional equity capital or other financing under commercially reasonable terms and conditions, or at all. Furthermore, if the Company issues equity or debt securities to raise additional funds, existing shareholders may experience dilution and the new equity or debt securities it issues may have





**Table of Contents**

rights, preferences and privileges senior to those of existing shareholders. In addition, if the Company raises additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to products or proprietary technologies, or grant licenses on terms that are not favorable. If the Company does not achieve its revenue projections, secure government funding or cannot raise funds on acceptable terms, the Company will not be able to continue as a going concern, develop or enhance products, obtain the required regulatory clearances or approvals, execute the Company's business plan, take advantage of future opportunities, or respond to competitive pressure or unanticipated customer requirements. Any of these events would adversely affect the Company's ability to achieve the Company's development and commercialization goals, which could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts of liabilities that might result from the outcome of these uncertainties.

**4. Intangible assets and royalty agreement:**

Intangible assets activity is summarized as follows:

|   | Weighted<br>Average<br>Amortization<br>Lives | June 30, 2010              |                             | December 31, 2009          |                             |
|---|--|----------------------------|-----------------------------|----------------------------|-----------------------------|
|   |  | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Gross<br>Carrying<br>Value | Accumulated<br>Amortization |
| License-Shriners Hsp for<br>Children & USF Research (a) | 10 years                                     | \$ 996,000                 | (338,633)                   | \$ 996,000                 | \$ (288,833)                |
| License SaluMedica LLC Spine<br>Repair (b)              | 10 years                                     | 2,399,000                  | (869,549)                   | 2,399,000                  | (721,541)                   |
| License Polyvinyl Alcohol<br>Cryogel (c)                | 10 years                                     | 2,667,000                  | (590,458)                   | 2,667,000                  | (454,300)                   |
| Total intangible assets                                 |  | \$ 6,062,000               | \$ (1,798,640)              | \$ 6,062,000               | \$ (1,464,674)              |

- (a) On January 29, 2007, the Company acquired a license from Shriners Hospitals for Children and University of South Florida Research Foundation, Inc. The acquisition price of this license was a one-time fee of \$100,000 and 1,120,000 shares of common stock valued at \$896,000 (based upon the estimated fair value of the common stock on the transaction date). Within 30 days after the receipt by the Company of approval by the FDA allowing the sale of the first licensed product, the Company is required to pay an additional \$200,000 to the licensor. Due to its contingent nature, this amount is not recorded as a liability. The Company will also be required to pay a royalty of 3% on all commercial sales revenues from the licensed products.
- (b) License from SaluMedica, LLC (SaluMedica) for the use of certain developed technologies related to spine repair. This license was acquired through the acquisition of SpineMedica Corp.
- (c) On March 31, 2008, the Company entered into a license agreement for the use of certain developed technologies related to surgical sheets made of polyvinyl alcohol cryogel. The acquisition price of the asset was 400,000 shares of common stock valued at \$2,596,000 (based upon the closing price of the common stock on the transaction date). On December 31, 2009, the Company completed the sale of its first commercial product and issued an additional 100,000 shares of common stock to the licensor valued at \$71,000. The agreement also provides for the issuance of an additional 500,000 shares of common stock upon the Company's meeting additional milestones related to future sales. Due to its contingent nature, there are no amounts accrued for this obligation.

Expected future amortization of intangible assets is as follows:

**12-month period ended December 31,**

|      |            |
|------|------------|
| 2010 | \$ 667,932 |
| 2011 | 667,932    |
| 2012 | 667,932    |

|            |              |
|------------|--------------|
| 2013       | 667,932      |
| 2014       | 667,932      |
| 2015       | 540,027      |
| Thereafter | 717,639      |
|            | \$ 4,597,326 |

**Table of Contents****5. Convertible Debt:**

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

In total, the Notes were convertible into up to 6,944,000 shares of common stock at \$.50 per share (a) at any time upon the election of the holder of the note; (b) automatically immediately prior to the closing of the sale of all or substantially all of the assets or more than 50% of the equity securities of the Company by way of a merger transaction or otherwise which would yield a price per share of not less than \$.50; or (c) at the election of the Company, at such time as the closing price per share of the Company's common stock (as reported by the OTCBB or on any national securities exchange on which the Company's shares may be listed, as the case may be) closes at not less than \$1.50 for not less than 20 consecutive trading days in any period prior to the maturity date. If converted, the Common Stock will be available to be sold following satisfaction of the applicable conditions set forth in Rule 144. The Notes mature in three years and earn interest at 3% per annum on the outstanding principal amount payable in cash on the maturity date or convertible into shares of common stock of the Company as provided for above. The Notes were secured by a first priority lien on all of the assets, including intellectual property, of MiMedx, Inc. The Notes were junior in payment and lien priority to any bank debt of the Company in an amount not to exceed \$5,000,000 hereafter incurred by the Company.

We evaluated the Notes for accounting purposes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815 *Derivatives and Hedging* and have determined that the conversion feature meets the conventional-convertible exemption and, accordingly, bifurcation and fair-value measurement of the conversion feature was not required. We were required to re-evaluate this conclusion upon each financial statement closing date while the Notes were outstanding. The Notes were issued with a beneficial conversion feature, having an intrinsic value of approximately \$676,500. The intrinsic value of the beneficial conversion feature was determined in accordance with ASC 470 *Debt with Conversion and Other Options* by comparing the contracted conversion price to the fair value of the common stock on the date of the respective Notes. A beneficial conversion feature only exists when the embedded conversion feature is in-the-money at the commitment date.

As a result of the beneficial conversion feature, the Notes were recorded net of a discount of \$676,500 related to the beneficial conversion feature, which was recorded in paid-in capital, and the discount has been amortized through periodic charges to interest expense over the term of the Notes using the effective interest method.

In conjunction with the offering the Company was obligated to pay a placement fee of \$138,040 of which \$127,540 was paid prior to June 30, 2009. In addition, the Company issued warrants to the placement agents totaling 315,520 at an exercise price of \$.50 per share. The fair value of the warrants was determined to be \$98,574 using the Black-Scholes-Merton valuation technique. The total direct costs of \$236,614 were recorded as deferred financing costs and were being amortized over the term of the Notes using the effective interest method. Further, the placement agent warrants are classified in stockholders' equity because they achieved all of the requisite conditions for equity classification in accordance with ASC 815 *Derivatives and Hedging*.

On March 31, 2010, the Company elected to exercise its right to convert into common stock of the Company at a conversion price of \$0.50 per share the outstanding Note Payable amount including accrued interest of \$3,532,361, resulting in the issuance of 7,064,721 shares of common stock. This decision was made based upon the Trading Value Conversion event per the terms of the Note whereby as of March 30, 2010, the trading price of the Common Stock closed at not less than \$1.50 per share for not less than 20 consecutive trading days prior to the Maturity Date. Prior to this event, certain individuals had voluntarily elected to convert their Notes into Common Stock resulting in the issuance of 70,393 shares of common stock. As a result of the Company's election to convert the remaining Notes, the Company was required immediately to recognize the remaining unamortized discount of \$499,610 related to the beneficial conversion feature as interest expense in the statement of operations for the three months ended March 31, 2010. Additionally, the \$174,739 in unamortized deferred financing costs were charged against additional paid in capital.



**Table of Contents****6. Sale of Common Stock:***October 2009 Private Placement*

In October 2009, the Company commenced a private placement to sell common stock and warrants. From October 30, 2009, through December 31, 2009, the Company sold 7,697,865 shares of common stock at a price of \$.60 per share and received proceeds of \$4,618,720. Under the terms of the offering, for every two shares of common stock purchased, the investor received a 5-year warrant to purchase one share of common stock for \$1.50 (a Warrant ). Through December 31, 2009, the Company issued a total of 3,848,933 warrants. From January 1, 2010, through January 21, 2010, the Company sold an additional 1,308,332 shares of common stock and issued an additional 654,163 warrants and received proceeds of \$785,000. The warrants met all the requirements for equity classification under GAAP and are recorded in stockholders equity.

The Company closed the offering on January 21, 2010.

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

**7. Stock Options and Warrants***Stock Options:*

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

|   | <b>Number of<br/>Shares</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(in years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---|-----------------------------|---|--|--|
| Outstanding at January 1, 2010              | 6,182,500                   | \$ 1.10   |  | \$ 307,535                               |
| Granted                                     | 1,945,400                   | \$ 1.43   |  |  |
| Exercised                                   | (105,250)                   | \$ 0.98   |  |  |
| Forfeited or cancelled                      | (87,000)                    | \$ 0.80   |  |  |
| Outstanding at June 30, 2010                | 7,935,650                   | \$ 1.18   | 6.6  | \$ 1,423,698                             |
| Vested or expected to vest at June 30, 2010 | 4,889,338                   | \$ 1.23   | 5.4  | \$ 862,858                               |

**Table of Contents**

The intrinsic value of options exercised during the three months ended June 30, 2010, was approximately \$825. Following is a summary of stock options outstanding and exercisable at June 30, 2010:

| Range of Exercise Prices | Number Outstanding | Options Outstanding                                    |                                 | Options Exercisable |                                 |
|--------------------------|--------------------|--|---------------------------------|---------------------|---------------------------------|
|                          |                    | Weighted-Average Remaining Contractual Life (in years) | Weighted-Average Exercise Price | Number Exercisable  | Weighted-Average Exercise Price |
| \$.0001 .50              | 1,011,500          | 4.2  | \$ .49                          | 508,163             | \$ .48                          |
| .65 1.00                 | 3,442,500          | 6.8  | .80                             | 2,577,184           | .83                             |
| 1.07 1.80                | 2,731,650          | 8.3  | 1.58                            | 1,091,292           | 1.77                            |
| 2.40                     | 750,000            | 2.3  | 2.40                            | 712,699             | 2.40                            |
|                          | 7,935,650          | 6.6  | 1.18                            | 4,889,338           | 1.23                            |

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

|                             | Shares     | Weighted Average Grant Date Fair Value |
|-----------------------------|------------|--|
| Unvested Stock Options      |            |  |
| Unvested at January 1, 2010 | 2,520,418  | .50                                    |
| Granted                     | 1,945,400  | 1.17                                   |
| Cancelled/Expired           | (87,000)   | .41                                    |
|                             | (          |  |
| Vested                      | 1,332,506) | .51                                    |
| Unvested at June 30, 2010   | 3,046,312  | .86                                    |

Total unrecognized compensation expense related to granted stock options at June 30, 2010, was approximately \$2,802,659 and will be charged to expense through June 2013.

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

**Table of Contents**

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

|                          |               |
|--------------------------|---------------|
| Expected volatility      | 59.5-59.8%    |
| Expected life (in years) | 6             |
| Expected dividend yield  | 0.00%         |
| Risk-free interest rate  | 1.83% - 2.26% |

The weighted-average grant date fair value for options granted during the three months ended June 30, 2010, was approximately \$1.17. There were no options granted during the same period in 2009.

*Warrants:*

A summary of our common stock warrant activity for the three months ended June 30, 2010, is as follows:

|  | <b>Number of<br/>Warrants</b> |    | <b>Weighted-<br/>Average<br/>Exercise Price per<br/>Warrant</b> |
|--|-------------------------------|----|---|
| Warrants outstanding at January 1, 2010                        | 6,991,371                     | \$ | 1.14  |
| Issued in connection with private placement of common stock    | 654,163                       | \$ | 1.50  |
| Exercised in connection with private placement of common stock | (3,219,348)                   | \$ | 1.00  |
| Warrants outstanding at June 30, 2010                          | 4,426,186                     | \$ | 0.94  |

As of June 30, 2010, the Company has not emerged from the development stage. In April 2010, the Company offered investors in the October 2009 Private Placement a discount to their existing \$1.50 warrant exercise price to \$1.00 if they exercised their warrants to purchase common stock for cash by May 1, 2010. As a result of this offer, the Company received proceeds of approximately \$3,200,000, net of placement agent fees, and issued 3,200,000 shares of common stock as of May 1, 2010. The aggregate proceeds include \$833,000 in common stock issued to the Chairman and CEO, \$20,850 to the President and Chief Operating Officer and \$20,833 to one other company director. As a result of this activity, the number of warrants outstanding as of June 30, 2010 was 4,426,186. The Company grants common stock warrants, in connection with equity share purchases by investors as an additional incentive for providing long term equity capital to the Company, to placement agents in connection with direct equity share and convertible debt purchases by investors and as additional compensation to consultants and advisors.

Warrants may be exercised in whole or in part by:

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

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

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

All of our warrants are classified as equity.

**Table of Contents****8. Income taxes:**

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

**9. Contractual Commitments:**

The table below sets forth our known contractual obligations as of June 30, 2010:

|                               | <b>Payments Due by Period</b> |                             |                        |                        |                                  |
|-------------------------------|-------------------------------|-----------------------------|------------------------|------------------------|----------------------------------|
|                               | <b>Total</b>                  | <b>Less than 1<br/>Year</b> | <b>1 - 3<br/>Years</b> | <b>3 - 5<br/>Years</b> | <b>More than<br/>5<br/>Years</b> |
| Operating leases              | \$ 394,311                    | \$ 256,283                  | \$ 138,028             | \$                     | \$                               |
| Minimum Royalties             | 155,000                       | 25,000                      | 80,000                 | 50,000                 |                                  |
| Total contractual obligations | \$ 549,311                    | \$ 281,283                  | \$ 218,028             | \$ 50,000              | \$                               |

**10. Subsequent Events:** None.**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****Forward-Looking Statements**

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

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



**Table of Contents**

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

**Overview**

We are a development stage enterprise based in Marietta, Georgia. The Company has generated only modest revenues to date and has a history of losses since its inception in November 2006.

MiMedx Group, Inc. ( MiMedx Group ) is an integrated developer, manufacturer and marketer of patent protected biomaterial-based products. MiMedx Group is emerging from a development-focused start-up company into a fully integrated operating company with the expertise to capitalize on its science and technology and the capacity to generate sales growth and profitability.

Repair, don't replace is the mantra of the MiMedx Group biochemists, engineers, and designers who are developing today's biomaterial-based solutions for patients and physicians. Market research shows the first desire of patients ranging from active baby-boomers and weekend warriors to high-school and professional athletes is to augment repair when possible, rather than replace traumatized, but otherwise healthy tissues and structures. Clinical research has proven that biomaterials can be used to achieve augmentation and repair.

**Results of Operations for the Three Months Ended June 30, 2010, Compared to the Three Months Ended June 30, 2009*****Revenues***

Revenues were approximately \$322,000 for the three months ended June 30, 2010, as compared to \$0 revenue for the three months ended June 30, 2009. The increase in revenue is driven by the continued market penetration of our HydroFix Vaso Shield in the United States and our HydroFix Spine Shield in Europe. During the quarter the company added several sales representative groups in the United States as well as stocking distributors in markets outside of the United States. In the month of June, the company delivered the first 0.6mm thickness HydroFix™ Vaso Shield product in the United States. We anticipate our sales will increase as we continue to execute our business plan but are unable to guaranty this momentum as an indicator of a future trend.

***Cost of Products Sold***

Cost of products sold approximated \$436,000 during the three months ended June 30, 2010, compared to \$0 in the comparable period a year ago. Due to a high degree of fixed costs during our commercial manufacturing ramp-up and the early stages of market acceptance of our products, sales and production volumes were not at high enough levels to enable us to produce unit costs that were lower than the current market price of our products resulting in a negative gross margin. We expect that as demand increases for our products it will enable us to more efficiently absorb fixed overhead costs resulting in significantly lower per unit costs.

***Research and Development Expenses***

Our research and development expenses decreased approximately \$21,000 or 2.7% to \$753,000 during the three months ended June 30, 2010, compared to approximately \$774,000 for the three months ended June 30, 2009. Excluding a one-time credit of \$153,000 for the settlement of prior period accounts payable recorded in the quarter ending June 30, 2009, the decrease in research and development expenses was 18.8%. The reduction in expenses reflects the transfer of certain personnel into manufacturing departments to support production as well as a cut in outside consulting costs, offset somewhat by an increase in on-going animal studies relating to our HydroFix™ product and the development of our proprietary manufacturing process in Tampa and Marietta for our CollaFix™ platform. Our research and development expenses consist of internal personnel costs, fees paid to external consultants and service providers supporting our development efforts, and supplies and instruments used in our laboratories. As of June 30, 2010, we employed 19 employees devoted to research and development, compared to 22 employees devoted to research and development at June 30, 2009. We anticipate continued activity in the area of research and development in the foreseeable future as we progress our technologies into clinical development to obtain clearance from the FDA to market our technologies.



**Table of Contents*****Selling, General and Administrative Expenses***

Our selling, general and administrative expenses increased approximately \$1,062,000 or 138.0% for the three month period ending June 30, 2010, as compared to the same period in 2009. Excluding a one-time credit of approximately \$411,000 for settlement of prior period accounts payable primarily related to legal expense recorded in the quarter ending June 30, 2009, the increase was approximately \$651,000 or 54.6%. The increase in these expenses was primarily the result of an increase in stock based compensation expense of approximately \$226,000 as well as the Company's increased investments in sales and marketing of approximately \$210,000, \$85,000 in consulting costs related to setup of our ERP system and Human Resources related policies and procedures, \$48,000 in salaries of critical new hires, \$38,000 in severance costs and \$21,000 in recruiting expenses. Our selling, general and administrative expenses consist of personnel costs, professional fees, sales commissions, sales training costs, industry trade show fees and expenses, product promotions and product literature costs, facilities costs and other sales, marketing and administrative costs. As of June 30, 2010, we employed 13 personnel in selling, general and administrative functions as compared to 13 as of June 30, 2009. Certain administrative headcount reductions were offset by the addition of sales and marketing personnel.

During the three months ended June 30, 2010, we recorded approximately \$112,000 in depreciation expense and \$167,000 in amortization expense as compared to \$116,000 and \$167,000, respectively, for these expenses in the same period in 2009. We depreciate our assets on a straight-line basis, principally over five to seven years, and amortize our intangible assets over a period of 10 years, which we believe represents the remaining useful lives of the patents underlying the licensing rights and intellectual property. We do not amortize goodwill, but at least annually we test goodwill for impairment and periodically evaluate other intangibles for impairment based on events or changes in circumstances as they occur.

***Share Based Compensation***

The total share based compensation recognized during the three months ended June 30, 2010 and 2009, approximated \$304,000 and \$78,000, respectively. These amounts are included in Selling, General and Administrative expenses in our statements of operations.

***Other Expense/Income***

We recorded net interest income of approximately \$1,200 during the three months ended June 30, 2010, compared with approximately \$55,000 of net interest expense during the three months ended June 30, 2009.

**Results of Operations for the Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009*****Revenues***

Net sales for the first six months ended June 30, 2010, were approximately \$437,000 as compared to \$0 revenue for the six months ended June 30, 2009. In the first quarter of 2010 we launched our HydroFix Vaso Shield in the United States and our HydroFix Spine Shield in Europe. On June 7, 2010 the Company announced that it had received notification by the FDA that the Company's proprietary device, HydroFix™ Vaso Shield, has received 510(k) clearance for additional thicknesses and sizes. The FDA has now cleared Hydrofix™ Vaso Shield for thicknesses ranging from 0.4mm to 1.0mm and multiple sizes. Initial quantities of the product were shipped in June to customers. Additionally, significant progress has been made in terms of building a distribution network of third party sales representatives and stocking distributors to market and distribute the product. As the distribution networks grows, so do the Company's efforts in providing leading edge training tools to shorten the learning curve and improve speed to first revenue for new customers. We anticipate our sales will increase as we continue to execute our business plan but are unable to guaranty this momentum as an indicator of a future trend.

**Table of Contents*****Cost of Products Sold***

Cost of products sold approximated \$816,000 during the six months ended June 30, 2010, compared to \$0 in the comparable period a year ago. Due to a high degree of fixed costs during our commercial manufacturing ramp-up and the early stages of market acceptance of our products, sales and production volumes were not at high enough levels to enable us to produce unit costs that were lower than the current market price of our products resulting in a negative gross margin. We expect that as demand increases for our products it will enable us to more efficiently absorb fixed overhead costs resulting in significantly lower per unit costs.

***Research and Development Expenses***

Our research and development expenses increased approximately \$75,000 or 5.9% to approximately \$1,325,000 for the six months ended June 30, 2010, compared to \$1,251,000 during the six months ended June 30, 2009. Excluding a one-time credit of \$153,000 for settlement of disputed prior period accounts payable recorded in the six months ended June 30, 2009, research and development expenses decreased \$79,000 or 5.6% in the period ended June 30, 2010 as compared to the same period in 2009. A reduction in the use of external consultants and the transfer of certain resources from R&D to manufacturing departments somewhat offset by increased investments in clinical studies in support of the FDA and other International agency clearance processes are the reasons for the variance versus prior year. Our research and development expenses consist of internal personnel costs, fees paid to external consultants and service providers supporting our development efforts, and supplies and instruments used in our laboratories. As of June 30, 2010, we employed 19 employees devoted to research and development, compared to 22 employees devoted to research and development at June 30, 2009. We anticipate continued activity in the area of research and development in the foreseeable future as we progress our technologies into clinical development to obtain clearance from the FDA to market our technologies.

***Selling, General and Administrative Expenses***

Our selling, general and administrative expenses increased approximately \$379,000 or 12% for the six month period ending June 30, 2010, as compared to the same period in 2009. Excluding a one-time credit of \$411,000 for settlement of disputed prior year period accounts payable primarily related to legal expense, S,G&A expenses decreased \$32,000 or 1.0% as compared to the period ended June 30, 2009. Sales & Marketing Expenses increased \$484,000 in support of the planned establishment of our global third party sales distribution network, director s fees increased \$70,000, severance costs \$66,000, recruiting costs \$55,000 and legal fees \$41,000. This was somewhat offset by a reduction in our stock based compensation expense of \$395,000 and a reduction in administrative personnel costs of \$331,000.

Our selling, general and administrative expenses consist of personnel costs, professional fees, sales commissions, sales training costs, industry trade show fees and expenses, product promotions and product literature costs, facilities costs and other sales, marketing and administrative costs. As of June 30, 2010, we employed 13 personnel in selling, general and administrative functions as compared to 13 as of June 30, 2009; however, administrative headcount reductions were offset by the addition of sales and marketing personnel.

During the six months ended June 30, 2010, we recorded \$223,000 in depreciation expense and \$334,000 in amortization expense as compared to \$228,000 and \$333,000, respectively, for these expenses in the same period in 2009. We depreciate our assets on a straight-line basis, principally over five to seven years, and amortize our intangible assets over a period of 10 years, which we believe represents the remaining useful lives of the patents underlying the licensing rights and intellectual property. We do not amortize goodwill, but at least annually we test goodwill for impairment and periodically evaluate other intangibles for impairment based on events or changes in circumstances as they occur.

**Table of Contents**

***Share Based Compensation***

The total share based compensation recognized during the six months ended June 30, 2010 and 2009, was approximately \$503,000 and \$900,000 respectively. These amounts are included in Selling, General and Administrative expenses in our statements of operations.

***Other Expense/Income***

We recorded net interest expense of approximately \$592,000 during the six months ended June 30, 2010, compared with approximately \$55,000 of net interest expense during the six months ended June 30, 2009. All of our interest expense recorded in the current period is related to our convertible notes offering.

On March 31, 2010 we converted all of our remaining 3% Convertible Senior Secured Promissory Notes to shares of our common stock. As a result we recognized as interest expense approximately \$499,610 of remaining unamortized debt discount related to these notes.

***Liquidity and Capital Resources***

Since inception, we have funded our development, operating costs and capital expenditures through issuances of stock or convertible debt. We had approximately \$2,728,000 of cash and cash equivalents on hand as of June 30, 2010.

As of June 30, 2010, the Company has not emerged from the development stage. In April 2010, the Company offered investors in the October 2009 Private Placement a discount to their existing \$1.50 warrant exercise price to \$1.00 if they exercised their warrants to purchase common stock for cash by May 1, 2010. As a result of this offer, the Company received proceeds of approximately \$3,200,000, net of placement agent fees, and issued 3,200,000 shares of common stock as of May 1, 2010. The aggregate proceeds include \$833,000 in common stock issued to the Chairman and CEO, \$20,850 to the President and Chief Operating Officer and \$20,833 to one other company director. As of June 30, 2010, the Company had \$2,728,205 of cash in the bank and has not emerged from the development stage. Assuming we receive no additional funds, we estimate that we have sufficient cash to operate until October 2010. In order to fund ongoing operations beyond that point, or to further accelerate and execute the business plan, we need to raise additional significant funds. In view of these matters, the ability of the Company to continue as a going concern is dependent on our ability to secure additional financing sufficient to support its research and development activities, approval of developed products for sale by regulatory authorities, including the FDA, and its investments in working capital. Since inception, the Company has financed its activities principally from the sale of equity securities and convertible debt. While the Company has been successful in the past in obtaining the necessary capital to support its operations, there is no assurance that the Company will be able to obtain government grants or additional equity capital or other financing under commercially reasonable terms and conditions, or at all. Furthermore, if the Company issues equity or debt securities to raise additional funds, existing shareholders may experience dilution and the new equity or debt securities it issues may have rights, preferences and privileges senior to those of existing shareholders. In addition, if the Company raises additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to products or proprietary technologies, or grant licenses on terms that are not favorable. If the Company does not achieve its revenue projections, secure government funding or cannot raise funds on acceptable terms, the Company will not be able to continue as a going concern, develop or enhance products, obtain the required regulatory clearances or approvals, execute the Company's business plan, take advantage of future opportunities, or respond to competitive pressure or unanticipated customer requirements. Any of these events would adversely affect the Company's ability to achieve the Company's development and commercialization goals, which could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts of liabilities that might result from the outcome of these uncertainties.

**Table of Contents**

**Discussion of cash flows**

Net cash used in operations during the six months ended June 30, 2010, increased approximately \$818,000 to \$3,900,000 compared to \$3,082,000 used in operating activities for the six month period ended June 30, 2009 reflecting our increased activity and acceleration of our efforts to transition into an operating company. The increase in our accounts receivable as well as building inventories available for commercial sales is contributing to this increase in cash outflow.

Our discounted warrant offering which closed in the six months ended June 30, 2010, provided us cash from financing activities of \$3,207,969 net of placement agent fees.

As discussed above, the Company's ability to continue as a going concern is dependent upon the Company's ability to raise additional funds as well as to achieve its budgeted revenue growth objectives to support its research and development activities and regulatory clearance or approval processes as well as our working capital and necessary capital expenditures. Funding from other sources such as government grants are also being pursued to support our near term cash requirements.

**Contractual Obligations**

Contractual obligations associated with our ongoing business activities are expected to result in cash payments in future periods. A table summarizing the amounts and estimated timing of these future cash payments as of June 30, 2010, is provided in Note 9 of the unaudited condensed consolidated financial statements included in Item 1.

**Critical Accounting Policies**

In preparing our financial statements we follow accounting principles generally accepted in the United States, which require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. A summary of our significant accounting policies that require the use of estimates and judgments in preparing the financial statements was provided in our Annual Report on Form 10-K for the year ended December 31, 2009. During the first six months of fiscal 2010, there were no material changes to the accounting policies and assumptions previously disclosed.

**Recent Accounting Pronouncements**

In February 2010, the FASB issued authoritative guidance that amends the disclosure requirements related to subsequent events. This guidance includes the definition of a Securities and Exchange Commission filer, removes the definition of a public entity, redefines the reissuance disclosure requirements and allows companies to omit the disclosure of the date through which subsequent events have been evaluated. This guidance is effective for financial statements issued for interim and annual periods ending after February 2010. This guidance did not materially impact the Company's results of operations or financial position, but did require changes to the Company's disclosures in its financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13 ( ASU 2009-13 ), which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified beginning in fiscal years on or after June 15, 2010. Early adoption is permitted. The Company does not expect the adoption of this standard to have any effect on its financial statements until or unless it enters into agreements covered by this standard.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company's business is anticipated to be directly dependent on foreign operations as the Company's sales to customers outside the U.S. become significant. A portion of the Company's total revenues are anticipated to be dependent on selling to distributors outside the U.S. There is a risk related to the changes in foreign currency exchange rates as it relates to our revenues paid to us in U.S. dollars for end-user sales within foreign countries. We are currently considering taking affirmative steps to hedge the risk of fluctuations in foreign currency exchange rates as revenues continue to increase. We do not expect our financial position, results of operations or cash flows to be materially impacted due to a sudden change in foreign currency exchange rates fluctuations relative to the U.S. Dollar over the next six months.

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

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

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

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

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

**Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the six months ended June 30, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Limitations on the Effectiveness of Controls**

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

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

As of the date of this report, there have been no material changes to the risk factors included in Item 1A to our Annual Report on Form 10-K for the nine months ended December 31, 2009.

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

During the six months ended June 30, 2010, the Company converted its 3% Convertible Senior Secured Notes into Common Stock. As a result of the conversion, the Company issued 7,135,114 shares of common stock representing the principal balance of the notes (\$3,472,000) and accrued interest payable of approximately \$96,000.

In April 2010, the Company offered investors in the October 2009 Private Placement a discount to their existing \$1.50 warrant exercise price to \$1.00 if they exercised their warrants to purchase common stock for cash by May 1, 2010. As a result of this offer, the Company received proceeds of approximately \$3,207,969, net of placement agent fees, and issued 3,207,969 shares of common stock as of May 1, 2010. The aggregate proceeds include \$833,000 in common stock sold to the Chairman and CEO, \$20,850 to the President and Chief Operating Officer and \$20,833 to one other company director.

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

**Item 3. Default Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.



**Table of Contents**

**Item 6. Exhibits.**

| <b>Exhibit<br/>Number</b> | <b>Reference</b> | <b>Description</b>   |
|---------------------------|------------------|--|
| 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                      | #                | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2                      | #                | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

# Filed herewith

**Table of Contents**

**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.

MIMEDX GROUP, INC.

Date: July 27, 2010

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