

MIMEDX GROUP, INC.

Form 10-Q

May 14, 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 March 31, 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 May 13, 2010, there were 61,769,431 shares outstanding of the registrant's common stock.

MIMEDX GROUP, INC.
TABLE OF CONTENTS

Part I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

| | |
|--|---|
| <u>Condensed Consolidated Balance Sheets as of March 31, 2010, (unaudited) and December 31, 2009</u> | 2 |
|--|---|

| | |
|--|---|
| <u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009, and the period from inception (November 22, 2006) through March 31, 2010, (unaudited)</u> | 3 |
|--|---|

| | |
|--|---|
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and 2009, and the period from inception (November 22, 2006) through March 31, 2010, (unaudited)</u> | 4 |
|--|---|

| | |
|---|---|
| <u>Condensed Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2010, and for the period from inception (November 22, 2006) through the period March 31, 2010</u> | 5 |
|---|---|

| | |
|--|----|
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17 |
|--|----|

| | |
|---|----|
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 20 |
|---|----|

| | |
|--|----|
| <u>Item 4. Controls and Procedures</u> | 21 |
|--|----|

Part II OTHER INFORMATION

| | |
|----------------------------------|----|
| <u>Item 1. Legal Proceedings</u> | 21 |
|----------------------------------|----|

| | |
|------------------------------|----|
| <u>Item 1A. Risk Factors</u> | 21 |
|------------------------------|----|

| | |
|--|----|
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 22 |
|--|----|

| | |
|---|----|
| <u>Item 3. Defaults under Senior Securities</u> | 22 |
|---|----|

| | |
|--|----|
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 22 |
|--|----|

| | |
|----------------------------------|----|
| <u>Item 5. Other Information</u> | 22 |
|----------------------------------|----|

| | |
|-------------------------|----|
| <u>Item 6. Exhibits</u> | 22 |
|-------------------------|----|

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Table of ContentsMIMEDX GROUP, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2010 (unaudited) | December 31, 2009 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,627,505 | \$ 2,653,537 |
| Trade Accounts Receivable | 115,655 | |
| Inventory | 68,276 | 30,920 |
| Prepaid expenses and other current assets | 171,854 | 121,277 |
| Total current assets | 1,983,290 | 2,805,734 |
| Property and equipment, net of accumulated depreciation of \$1,059,438 (March) and \$948,445 (December) | 954,260 | 1,049,597 |
| Goodwill | 857,597 | 857,597 |
| Intangible assets, net of accumulated amortization of \$1,631,657 (March) and \$1,464,674 (December) | 4,430,343 | 4,597,326 |
| Deferred financing costs | | 192,627 |
| Deposits and Other Long Term Receivables | 111,180 | 189,202 |
| Total assets | \$ 8,336,670 | \$ 9,692,083 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 928,050 | \$ 629,349 |
| Total current liabilities | 928,050 | 629,349 |
| 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 |
| Total liabilities | 928,050 | 3,620,205 |
| Commitments and contingency (Notes 4 and 9) | | |
| Stockholders equity: | | |
| Preferred stock; \$.001 par value; 5,000,000 shares authorized and 0 (March and December) shares issued and outstanding | 58,550 | 50,003 |

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

| | | |
|--|--------------|--------------|
| Common stock; \$.001 par value; 100,000,000 shares authorized; and 58,550,083 (March) and 50,002,887 (December) shares issued; 58,550,083 (March) and 49,952,887 (December) shares outstanding | | |
| Additional paid-in capital | 50,924,762 | 46,454,482 |
| Treasury stock (50,000 shares at cost) | (25,000) | (25,000) |
| Deficit accumulated during the development stage | (43,549,692) | (40,407,607) |
| | | |
| Total stockholders' equity | 7,408,620 | 6,071,878 |
| | | |
| Total liabilities and stockholders' equity | \$ 8,336,670 | \$ 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 March 31, | | Period from Inception (November 22, 2006) through March 31, 2010 |
|--|---------------------------------|----------------|---|
| | 2010 | 2009 | |
| REVENUES: | | | |
| Net Sales | \$ 114,855 | \$ | \$ 115,655 |
| OPERATING COSTS AND EXPENSES: | | | |
| Cost of products sold | 379,588 | | 379,828 |
| Research and development expenses | 572,404 | 957,084 | 9,312,239 |
| Acquired in-process research and development | | | 7,177,000 |
| Selling, General and Administrative expenses | 1,711,438 | 1,915,594 | 22,355,445 |
| Gain on sale of assets | | | (275,428) |
| LOSS FROM OPERATIONS | (2,548,575) | (2,872,678) | (38,833,429) |
| OTHER INCOME (EXPENSE), net | | | |
| Financing expense associated with issuance of common stock for registration rights waivers | | | (1,305,100) |
| Financing expense associated with warrants issued in connection with convertible promissory note | | | (975,833) |
| Net interest (expense) income, net | (593,510) | 694 | (223,140) |
| Change in fair value of investment, related party | | | (41,775) |
| LOSS BEFORE INCOME TAXES | (3,142,085) | (2,871,984) | (41,379,277) |
| Income taxes | | | |
| NET LOSS | (3,142,085) | (2,871,984) | (41,379,277) |
| Accretion of redeemable common stock and common stock with registration rights to fair value | | | (2,158,823) |
| Loss attributable to common shareholders | \$ (3,142,085) | \$ (2,871,984) | \$ (43,538,100) |
| Net loss per common share | | | |
| Basic and diluted | \$ (0.06) | \$ (0.07) | |

| | | |
|--|------------|------------|
| Shares used in computing net loss per common share | | |
| Basic and diluted | 51,227,540 | 38,549,350 |

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)

| | Three Months Ended March 31, | | Period from Inception (November 22, 2006) through March 31, 2010 |
|--|---------------------------------|-----------------|---|
| | 2010 | 2009 | |
| Cash flows from operating activities: | | | |
| Net loss | \$ (3,142,085) | \$ (2,871,984) | \$ (41,379,277) |
| Adjustments to reconcile net loss to net cash flows from operating activities, net of effects of acquisition: | | | |
| Gain on settlement of payables | | | (584,969) |
| (Gain)/loss on sale of equipment | | 5,440 | (275,428) |
| Acquired in-process research and development | | | 7,177,000 |
| Depreciation | 110,992 | 111,820 | 1,066,069 |
| Amortization of intangible assets | 166,983 | 166,704 | 1,654,857 |
| Amortization of debt discount and deferred financing costs | 568,636 | | 738,375 |
| Employee share-based compensation expense | 189,467 | 456,367 | 2,161,178 |
| Other share-based compensation expense | 9,667 | 365,264 | 767,759 |
| 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 | (115,655) | | (115,655) |
| Inventory | (37,356) | | (68,276) |
| Prepaid expenses and other current assets | (35,576) | (74,632) | (77,775) |
| Other assets | 63,021 | 100 | (52,379) |
| Accounts payable and accrued expenses | 324,654 | 508,648 | 885,409 |
| Deferred interest income | | | (43,200) |
| Net cash flows from operating activities | (1,897,252) | (1,332,273) | (24,698,119) |
| Cash flows from investing activities: | | | |
| Purchase of equipment | (15,655) | (29,247) | (1,568,560) |
| 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) |
| Cash received in acquisition of SpineMedica Corp. | | | 1,957,405 |

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

| | | | |
|---|--------------|-----------|--------------|
| Cash paid for acquisition costs of SpineMedica Corp. | | | (227,901) |
| Payments from (advances to) related party | | | (2,008,522) |
| Net cash flows from investing activities | (15,655) | (22,667) | (1,667,080) |
| Cash flows from financing activities: | | | |
| Proceeds from convertible debt offering | | | 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 | 101,875 | | 104,043 |
| Offering costs paid in connection with convertible debt offering | | | (138,040) |
| Offering costs paid in connection with Series A preferred stock offering | | | (918,806) |
| Net cash flows from financing activities | 886,875 | 525,000 | 27,992,704 |
| Net change in cash | (1,026,032) | (829,940) | 1,627,505 |
| Cash, beginning of period | 2,653,537 | 864,768 | |
| Cash, end of period | \$ 1,627,505 | \$ 34,828 | \$ 1,627,505 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | \$ | \$ | \$ |
| Cash paid for income taxes | \$ | \$ | \$ |

Supplemental disclosure of non-cash financing activity:

During the three months ended March 31, 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 MARCH 31, 2010

| Total Amount | Convertible Preferred Stock Series B | | Convertible Preferred Stock Series C | | Common Stock | | Additional Paid-in Capital | Treasury Stock | Stock Subscriptions Receivable | Note Receivable - Related 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 | | |
| 25,273,996) | | | | | 18,420,198 | 18,420 | 25,255,576 | | |

400,000 400 2,595,600

36,864,534 36,864 32,226,983

See notes to condensed consolidated financial statements

Table of Contents

| | Convertible Preferred Series A | Convertible Preferred Series B | Convertible Preferred Series C | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Stock | Subscription Receivable | Note Receivable Related Party | Deficit Accumulated During the Development Stage | Total |
|---|---|---|---|---------------------------|---------------------------|----------------------------------|-------------------|----------------------------|--|--|-------------|
| 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 stock | | | | | | 595,073 | | | | | 595,073 |
| 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 | | | | | | 334,100 | | | | | 334,100 |

| | | | | | |
|---|------------|--------|------------|--------------|--------------|
| connection with the amendment of private placement of common stock | | | | | |
| 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 agents in conjunction with convertible debt | | | 98,574 | | 98,574 |
| Exercise of stock options | 20,000 | 20 | (18) | | 2 |
| Common stock issued for waivers of registration rights | 2,490,000 | 2,490 | 1,302,610 | | 1,305,100 |
| Reclassification of common | 1,905,000 | 1,905 | 3,759,345 | | 3,761,250 |

| | | | | | |
|--|-----------|-------|-----------|-------------|-------------|
| stock with registration rights | | | | | |
| 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 conjunction with private placement | 100,000 | 100 | 41,900 | | 42,000 |
| 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 |
|----|----|----|------------|----|--------|----|------------|----|----------|----|----|--------------|----|-----------|

See notes to condensed consolidated financial statements

Table of Contents

| | Convertible Preferred Stock Series A | Convertible Preferred Stock Series B | Convertible Preferred Stock Series C | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Treasury Stock | Subsidiary Receivable | Note Related Party | Deficit Accumulated During the Development Stage | Total |
|--|--|--|--|---------------------------|---------------------------|----------------------------------|-------------------|--------------------------|--------------------------|--|--------------|
| Balances, December 31, 2009 | \$ | \$ | \$ | 50,002,887 | \$ 50,003 | \$ 46,454,482 | \$ (25,000) | \$ | \$ | \$ (40,407,607) | \$ 6,071,878 |
| Employee share-based compensation expense (unaudited) | | | | | | 189,467 | | | | | 189,467 |
| Other share-based compensation expense (unaudited) | | | | | | 9,667 | | | | | 9,667 |
| Sale of common stock and warrants (unaudited) | | | | 1,308,332 | 1,308 | 783,692 | | | | | 785,000 |
| Exercise of stock options (unaudited) | | | | 103,750 | 104 | 101,771 | | | | | 101,875 |
| Shares issued in conjunction with conversion of convertible debt (unaudited) | | | | 7,135,114 | 7,135 | 3,385,683 | | | | | 3,392,818 |
| Net loss for the period (unaudited) | | | | | | | | | | (3,142,085) | (3,142,085) |
| | \$ | \$ | \$ | 58,550,083 | \$ 58,550 | \$ 50,924,762 | \$ (25,000) | \$ | \$ | \$ (43,549,692) | \$ 7,408,620 |

Balances,
March 31,
2010
(unaudited)

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 MONTH PERIODS ENDED MARCH 31, 2010 AND 2009 AND THE PERIOD
FROM INCEPTION (NOVEMBER 22, 2006)
THROUGH MARCH 31, 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 three months ended March 31, 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. MiMedx acquired a license for the use, adoption and development of certain core technologies developed at the Shriners Hospital for Children and the University of South Florida Research Foundation. This technology focuses on biomaterials for soft tissue repair, such as tendons, ligaments and cartilage, as well as other biomaterial-based products for numerous other medical applications. The development of the licensed technologies requires continued research and development and, ultimately, the approval of the U.S. Food and Drug Administration (FDA) and/or foreign regulatory authorities in order for the Company to be able to generate revenues from the sale of its products. This process is expected to take at least six months to one year, 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). 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.

Table of Contents

The Company operates in one business segment, Biomaterials, which includes the design, manufacture, and marketing of products for the Orthopedics and Spine market categories. 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 products are constructed of a durable hydrogel, the first of which is the HydroFix Vaso Shield indicated as a cover for vessels following anterior vertebral surgery. The company completed the development of the HydroFix Vaso Shield surgical sheet products with a FDA 510(k) marketing clearance, received on April 20, 2009 and completed the sale of its first commercial product in December 2009. On March 1, 2010 the Company announced that it had received the CE Mark for its HydroFix Spine Shield device and was certified for design, development and production of post-surgical adhesion inhibiting barriers. The company is investigating expansion of this product line to other areas of the body in and outside the orthopedic and spine category.

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

2. Significant accounting policies:*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:

| | Three Months Ended March 31, | |
|---|---------------------------------|----------------|
| | 2010 | 2009 |
| Net loss | \$ (3,142,085) | \$ (2,871,984) |
| Denominator for basic earnings per share-weighted average shares | 51,227,540 | 38,549,350 |
| Effect of dilutive securities: Stock options and warrants outstanding ^(a) | | |
| Denominator for diluted earnings per share weighted average shares adjusted for dilutive securities | 51,227,540 | 38,549,350 |
| Loss per common share basic and diluted | \$ (.06) | \$ (.07) |

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

been
anti-dilutive are
as follows:

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2010 | 2009 |
| Stock options, warrants, and convertible debt | 14,952,184 | 5,461,501 |

Table of Contents*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 March 31, 2010 the Company experienced net losses of \$41,379,277 (unaudited) and cash used in operations of \$24,698,119 (unaudited). As of March 31, 2010, the Company has not emerged from the development stage. 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 in excess of \$3.2 million net of placement fees as of May 1, 2010. The aggregate proceeds include \$.8 million in common stock sold to the Chairman and CEO, President and Chief Operating Officer one other company director. As the company transitions from a development stage company to an operating company, the ability of the Company to continue as a going concern is dependent upon the Company's ability to meet its revenue growth projections and obtain funding through government grants or other funding sources 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. If the company does not achieve its revenue targets it may have to raise additional funds through equity or debt financing within the next 9 months. 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**4. Intangible assets and royalty agreement:**

Intangible assets activity is summarized as follows:

| | License (a) | License (b) | License (c) | Total |
|------------------------|------------------------|------------------------|------------------------|--------------|
| January 1, 2010 | \$ 707,166 | 1,677,460 | 2,212,700 | \$ 4,597,326 |
| Additions | | | | |
| Amortization | (24,900) | (74,004) | (68,079) | (166,983) |
| March 31, 2010 | 682,266 | 1,603,456 | 2,271,500 | 4,430,343 |

(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 thirty days after the receipt by the Company of approval by the FDA allowing the sale of the first licensed product, the Company is

required to pay an additional \$200,000 to the licensor. This amount is not recorded as a liability based on its contingent nature. The Company will also be required to pay a royalty of 3% on all commercial sales revenues of the licensed products.

- (b) License from SaluMedica, LLC (SaluMedica) for the use of certain developed technologies related to spine repair. This license was acquired through the acquisition of SpineMedica Corp.
- (c) On March 31, 2008, the Company entered into a license agreement for the use of certain developed technologies related to surgical sheets made of polyvinyl alcohol cryogel. The acquisition

price of the asset was 400,000 shares of common stock valued at \$2,596,000 (based upon the closing price of the common stock on the transaction date). 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 upon the Company meeting additional milestones related to future sales. There are no amounts accrued for this obligation due to its contingent nature.

Expected future amortization of intangible assets is as follows:

| | |
|--------------------------|---------|
| Year ending December 31, | |
| 2011 | 667,932 |
| 2012 | 667,932 |
| 2013 | 667,932 |
| 2014 | 667,932 |
| 2015 | 667,932 |

Thereafter

1,090,683

\$ 4,430,343

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, President 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 twenty (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 3 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. Notwithstanding, 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 are 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*.

Table of Contents

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 twenty (20) consecutive trading days prior to the Maturity Date. Prior to this event certain individuals had voluntarily elected to convert their note into Common Stock resulting in the issuance of 70,393 shares of Common Stock. As a result of the Company's election to convert the remaining Notes, the Company was required to immediately recognize the remaining unamortized discount of \$499,610 related to the beneficial conversion feature as interest expense in the statement of operations for the three months ended March 31, 2010. Additionally, the \$174,739 in unamortized deferred financing costs were charged against additional paid in capital.

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. The warrants met all the requirements for equity classification under GAAP and are recorded in stockholders' equity. From January 1, 2010, through January 21, 2010, the Company sold an additional 1,308,332 shares of common stock and issued an additional 654,163 warrants and received proceeds of \$785,000.

The Company closed the offering on January 21, 2010.

In connection with the October 2009 Private Placement, the Company entered into a registration rights agreement which 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:

| | Shares | Weighted-average Exercise Prices | Intrinsic Value |
|--|-----------|-------------------------------------|--------------------|
| Options outstanding at January 1, 2010 | 6,182,500 | \$ 1.10 | \$ 307,535 |
| Granted | 1,290,400 | 1.56 | |
| Forfeited/Cancelled | (62,500) | .50 | |
| Exercised | (103,750) | .98 | |
| Options outstanding at March 31, 2010 | 7,306,650 | 1.18 | \$ 2,988,000 |
| Options exercisable at March 31, 2010 | 3,770,000 | 1.33 | \$ 1,273,000 |

Table of Contents

The intrinsic value of options exercised during the three months ended March 31, 2010 was approximately \$55,000. Following is a summary of stock options outstanding and exercisable at March 31, 2010:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| \$.0001 - .50 | 1,017,500 | 4.5 (years) | \$.49 | 288,750 | \$.46 |
| .65 - 1.00 | 3,442,500 | 7.1 | .80 | 1,885,000 | .87 |
| 1.47 - 1.80 | 2,096,650 | 5.8 | 1.72 | 953,750 | 1.80 |
| 2.40 | 750,000 | 2.5 | 2.40 | 642,500 | 2.40 |
| | 7,306,650 | 5.73 | 1.18 | 3,770,000 | 1.33 |

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

| Unvested Stock Options | Shares | Weighted Average Grant Date Fair Value |
|-----------------------------|-----------|--|
| Unvested at January 1, 2010 | 2,520,418 | .50 |
| Granted | 1,290,400 | 1.43 |
| Cancelled/Expired | (62,500) | .40 |
| Vested | (211,668) | .47 |
| Unvested at March 31, 2010 | 3,536,650 | .84 |

Total unrecognized compensation expense related to granted stock options at March 31, 2010 was approximately \$2,707,000 and will be charged to expense through March 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:

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|--------------------------|--------------------------------------|--------------------------------------|
| Dividend yield | 0% | 0% |
| Expected volatility | 136.06 to 144.32% | 68.85 - 76.90% |
| Risk free interest rates | 2.28 to 2.44% | 1.84 - 1.89 % |
| Expected lives | 6 years | 5.75 - 6 years |

The weighted-average grant date fair value for options granted during the three months ended March 31, 2010, and 2009, was approximately \$1.43, and \$.49, respectively.

Warrants:

A summary of our common stock warrant activity for the three months ended March 31, 2010 is as follows:

| | Number | Weighted Average Exercise Price per Share |
|---|-----------|---|
| Warrants outstanding at January 1, 2010 | 6,991,371 | \$ 1.14 |
| Issued in connection with private placement of common stock | 654,163 | 1.50 |
| Warrants outstanding at March 31, 2010 | 7,645,534 | \$ 1.17 |

As mentioned in Note 3 Liquidity and management's plans, investors in the October 2009 private placement exercised 3,219,348 warrants at an exercise price of \$1.00 per share subsequent to March 31, 2010. As a result of this activity, the number of warrants outstanding as of May 1, 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 March 31, 2010:

| | Total | Payments due by period | | | |
|-----------------------------|------------|------------------------|-------------|-------------|--------|
| | | Less than 1 year | 2 - 3 years | 4 - 5 years | |
| Contractual Obligations | | | | | |
| Operating Lease Obligations | 531,000 | 285,000 | 246,000 | | |
| Minimum Royalties | 155,000 | 25,000 | 80,000 | | 50,000 |
| Employment Agreements | 43,750 | 43,750 | | | |
| Total | \$ 729,750 | \$ 353,750 | \$ 326,000 | \$ | 50,000 |

Table of Contents

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 filed on March 30, 2010, as well as other reports that we file with the SEC.

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

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 March 31, 2010 Compared to the Three Months Ended March 31, 2009

Revenues

We experienced our first significant level of sales during the three months ended March 31, 2010, represented by the initial launch of our HydroFix Vaso Shield in the United States and our HydroFix Spine Shield in Europe. Net sales during the three months ended March 31, 2010 were approximately \$115,000 as compared to no sales during the comparable period a year ago. 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 \$380,000 during the three months ended March 31, 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 \$385,000 or 40.2% to \$572,000 during the three months ended March 31, 2010, compared to \$957,000 during the three months ended March 31, 2009, reflecting our focus on reducing costs. 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. Our internal personnel costs decreased approximately \$327,000 or 47.9% to \$356,000 for the three months ended March 31, 2010, compared to \$683,000 for the three months ended March 31, 2009. The factors influencing this decrease in personnel costs relate to reclassifying personnel costs to production and cost of goods sold in the period ending March 31, 2010, as we enter commercial production operations, and efforts to focus our research and development investments on near term growth oriented development projects. As of March 31, 2010, we employed 20 employees devoted to research and development, compared to 25 employees devoted to research and development at March 31, 2009. Fees paid to external consultants and service providers decreased approximately \$54,000 or 21.1%, to \$201,000 for the three months ended March 31, 2010, compared to \$255,000 for the same period in 2009. This decrease is attributed to reduced activity with external consultants and service providers as they have completed certain of their assigned projects. Supplies and instruments used for research and development increased approximately \$24,000 or 126% to \$43,000 for the three month period ending March 31, 2010, as compared to \$19,000 for the same period in 2009. This increase is attributed to the re-alignment of our research and development efforts as we continue to advance our products to regulatory clearance and new product initiatives. 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 approval from the FDA to market our technologies.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses decreased \$204,000 or 10.7% for the three month period ending March 31, 2010, as compared to the same period in 2009. The decrease in these expenses was primarily the result of a decrease in stock based compensation of \$622,000 offset by our investment in sales and marketing of \$273,000, increased travel expenses, costs incurred to close our administrative office in Tampa, Florida, as well as recruiting fees for critical new hires, a bonus accrual, consulting and other costs incurred in support of our overall strategic objectives. 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 March 31, 2010, we employed 8 personnel in selling, general and administrative functions as compared to the same total as of March 31, 2009, however, administrative headcount reductions were offset by the addition of sales and marketing personnel.

During the three months ended March 31, 2010, we recorded \$111,000 in depreciation expense and \$167,000 in amortization expense as compared to \$112,000 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.

Table of Contents***Share Based Compensation***

We follow the provisions of FASB Accounting Standards Codification 718, Compensation – Stock Compensation (ASC 718), previously referred to as Statement of Financial Accounting Standards No. 123R – Share-based Payments (SFAS123R), which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (options). The total share based compensation recognized during the three months ended March 31, 2010 and 2009, approximated \$199,000 and \$822,000, 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 \$594,000 during the three months ended March 31, 2010, and less than \$1,000 of net interest income during the three months ended March 31, 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 \$1,628,000 of cash and cash equivalents on hand as of March 31, 2010.

As of March 31, 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 \$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 \$800,000 of common stock sold to the Company's Chairman and Chief Executive Officer, President and Chief Operating Officer and one other director. As the company transitions from a development stage company to an operating company, the ability of the Company to continue as a going concern is dependent upon the Company's ability to meet its revenue growth projections and obtain other funding through government grants 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. If the company does not achieve its revenue targets it may have to raise additional funds through equity or debt financing within the next 9 months. 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.

Discussion of cash flows

Net cash used in operations during the three months ended March 31, 2010, increased approximately \$565,000 to \$1,897,000 compared to \$1,332,000 used in operating activities for the three month period ended March 31, 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.

Table of Contents

As discussed above, the ability of the Company to continue as a going concern is dependent upon the Company's ability to achieve its budgeted revenue growth objectives to support its research and development activities, approval of developed products for sale by regulatory authorities, including the FDA, 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 March 31, 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 three 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of doing business we are not exposed to the risks associated with foreign currency exchange rates and changes in interest rates. We do not engage in trading market risk sensitive instruments or purchasing hedging instruments or other than trading instruments that are likely to expose us to significant market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk.

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

Table of Contents

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 three months ended March 31, 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.

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.

Table of Contents

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

During the three months ended March 31, 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.

Item 3. Default Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits.

| Exhibit Number | Reference | Description |
|-----------------------|------------------|--|
| 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: May 13, 2010

By: /s/ Michael J. Senken

Michael J. Senken
Chief Financial Officer