MIMEDX GROUP, INC.
Form 10-Q
November 15, 2010

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

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

For the Quarterly Period Ended September 30, 2010

OR

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

For the transition period from _____ to _____

Commission file number 0-52491

MIMEDX GROUP, INC.

(Exact name of registrant as specified in its charter)

Florida	**26-2792552**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)
811 Livingston Court, Suite B **Marietta, GA**	**30067**
(Address of principal executive offices)	(Zip Code)

(678) 384-6720

Registrant s telephone number, including area code

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

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

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

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

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

As of November 15, 2010, there were 63,825,931 shares outstanding of the registrant s common stock.

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

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 428,493	$ 2,653,537
Accounts receivable, net	259,476	
Inventory	117,821	30,920
Prepaid expenses and other current assets	123,669	121,277
Total current assets	929,459	2,805,734
Property and equipment, net of accumulated depreciation of $1,286,038 and $948,445, respectively	861,189	1,049,597
Goodwill	857,597	857,597
Intangible assets, net of accumulated amortization of $1,965,623 and $1,464,674, respectively	4,096,377	4,597,326
Deferred financing costs		192,627
Deposits and other long term assets	102,500	189,202
Total assets	$ 6,847,122	$ 9,692,083
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,143,645	$ 629,349
Total current liabilities	1,143,645	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	1,143,645	3,620,205
Commitments and contingency (Notes 4 and 9)		
Stockholders equity:		
Preferred stock; $.001 par value; 5,000,000 shares authorized and 0 (September and December) shares issued and outstanding		

Common stock; $.001 par value; 100,000,000 shares authorized; and 61,770,931 (September) and 50,002,887 (December) shares issued; 61,720,931 (September) and 49,952,887 (December) shares outstanding	61,771	50,003
Additional paid-in capital	54,767,409	46,454,482
Treasury stock (50,000 shares at cost)	(25,000)	(25,000)
Deficit accumulated during the development stage	(49,100,703)	(40,407,607)
Total stockholders equity	5,703,477	6,071,878
Total liabilities and stockholders equity	$ 6,847,122	$ 9,692,083

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Period from Inception (November 22, 2006) through September 30,
	2010	2009	2010	2009	2010
REVENUES:					
Net Sales	$ 108,027	$	$ 544,956	$	$ 545,757
OPERATING COSTS AND EXPENSES:					
Cost of products sold	539,697		1,355,210		1,355,450
Research and development expenses	842,929	949,281	2,168,043	2,200,168	10,907,879
Acquired in-process research and development					7,177,000
Selling, General and Administrative expenses	1,579,259	1,457,965	5,121,933	4,621,295	25,765,940
Gain on sale of assets					(275,428)
LOSS FROM OPERATIONS	(2,853,858)	(2,407,246)	(8,100,230)	(6,821,463)	(44,385,084)
OTHER INCOME (EXPENSE), net					
Financing expense associated with issuance of common stock for registration rights waivers		(1,305,100)		(1,305,100)	(1,305,100)
Financing expense associated with warrants issued in connection with convertible promissory note		(683,416)		(683,416)	(975,833)
Net interest (expense) income, net	(584)	(90,814)	(592,866)	(146,124)	(222,496)
Change in fair value of investment, related party					(41,775)
	(2,854,442)	(4,486,576)	(8,693,096)	(8,956,103)	(46,930,288)

LOSS BEFORE INCOME TAXES					
Income taxes					
NET LOSS	(2,854,442)	(4,486,576)	(8,693,096)	(8,956,103)	(46,930,288)
Accretion of redeemable common stock and common stock with registration rights to fair value					(2,158,823)
Loss attributable to common shareholders	$ (2,854,442)	$ (4,486,576)	$ (8,693,096)	$ (8,956,103)	$ (49,089,111)
Net loss per common share Basic and diluted	$ (0.05)	$ (0.11)	$ (0.15)	$ (0.23)	
Shares used in computing net loss per common share Basic and diluted	61,049,942	41,576,491	57,874,093	39,803,573	

See notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,		Period from Inception (November 22, 2006) through
	2010	2009	September 30, 2010
Cash flows from operating activities:			
Net loss	$ (8,693,096)	$ (8,956,104)	$ (46,930,288)
Adjustments to reconcile net loss to net cash flows from operating activities, net of effects of acquisition:			
Provision for bad debts	(28,745)		(28,745)
Gain on settlement of payables		(566,219)	(584,969)
(Gain)/loss on sale of equipment		5,440	(275,428)
Acquired in-process research and development			7,177,000
Depreciation	337,594	338,831	1,292,671
Amortization of intangible assets	500,949	500,114	1,988,823
Amortization of debt discount and deferred financing costs	499,610	136,194	669,349
Employee share-based compensation expense	731,216	687,138	2,702,927
Other share-based compensation expense	105,062	474,045	863,154
Financing expense associated with issuance of common stock for waivers of registration rights		1,305,100	1,305,100
Financing expense associated with warrants issued in connection with convertible promissory note		683,416	975,833
Modifications of options and purchase of treasury stock		48,000	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	(230,731)		(230,731)
Inventory	(86,901)		(117,821)
Prepaid expenses and other current assets	(2,392)	(129,933)	(44,591)
Other assets	86,702		86,702
Accounts payable and accrued expenses	609,276	483,466	1,170,031
Deferred interest income			(43,200)
Net cash flows from operating activities	(6,171,456)	(4,990,512)	(28,856,923)
Cash flows from investing activities:			
Purchase of equipment	(149,183)	(39,511)	(1,817,488)
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
Cash paid for acquisition costs of SpineMedica Corp.			(227,901)
Advances to related party			(2,008,522)
Net cash flows from investing activities	(149,183)	(32,931)	(1,916,008)
Cash flows from financing activities:			
Proceeds from convertible debt offering		3,472,000	3,472,000
Proceeds from bridge loan		295,000	
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	4,164,460	31,201,424
Net change in cash	(2,225,044)	(858,983)	428,493
Cash, beginning of period	2,653,537	864,768	
Cash, end of period	$ 428,493	$ 5,785	$ 428,493
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.

During the three months ended March 31, 2009:

* the Company issued 315,520 warrants to purchase common stock, valued at $98,574 and recognized a beneficial conversion feature of $676,500 in conjunction with our convertible debt offering.

*

the Company issued common stock valued at $42,000 for prepaid expenses, $81,375 for accrued directors fees, and $93,822 for accrued executive compensation.

* the Company reclassified $3,761,250 of common stock with registration rights to equity as the result of the termination of such rights (Note 7).

See notes to condensed consolidated financial statements

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

ount	Convertible Preferred Stock Series B Shares	Convertible Preferred Stock Series B Amount	Convertible Preferred Stock Series C Shares	Convertible Preferred Stock Series C Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Stock Subscriptions Receivable	N Rece Re p
		$		$		$	$		$	$
					12,880,000	12,880				
							13,409			
							17,980			
					1,120,000	1,120	894,880			
										(2,(
16,000							(918,806)		(1,233,750)	
16,000					14,000,000	14,000	7,463		(1,233,750)	(2,(
							649,783			
							158,247			

								1,233,750	
	5,922,397	7,402,996			2,911,117	2,911	2,316,908		2,0
			1,285,001	3,855,000					
							116,000		
					1,200	1	2,159		
57,996	(5,922,397)	(7,402,996)	(1,285,001)	(3,855,000)	926,168	926	(926)		
					205,851	206	1,126,173		
73,996)					18,420,198	18,420	25,255,576		
					400,000	400	2,595,600		
					36,864,534	36,864	32,226,983		
							945,062		
							130,076		
					417,594	418	(418)		

			595,073
	57,500	58	(52)
			334,100
	37,339,628	37,340	34,230,824
			363,457
			117,689
			676,500
			98,574
	20,000	20	(18)
	2,490,000	2,490	1,302,610

		1,905,000	1,905	3,759,345			
		162,750	163	81,212			
		187,644	187	93,635			
		100,000	100	70,900			
		7,697,865	7,698	4,569,021			
		100,000	100	41,900			
				975,833			
				73,000	(25,000)		
$	$	50,002,887	$ 50,003	$ 46,454,482 731,216	$ (25,000)	$	$

				105,062			
		1,308,332	1,308	783,692			
		105,250	106	102,520			
		3,219,348	3,219	3,204,750			
		7,135,114	7,135	3,385,687			
$	$	61,770,931	$ 61,771	$ 54,767,409	$ (25,000)	$	$

See notes to condensed consolidated financial statements

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MIMEDX GROUP, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009 AND THE PERIOD FROM
INCEPTION (NOVEMBER 22, 2006) THROUGH SEPTEMBER 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 of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations for the periods presented have been included. Operating results for the three and nine months ended September 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.

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.

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

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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. Advance payments received for products are recorded as deferred revenue and are generally recognized when the product is shipped. The Company reduces sales revenue for estimated customer returns and other allowances. The Company recorded $5,096 and $0 for net sales returns provisions, respectively, for the three months ended September 30, 2010 and 2009. For the nine months ended September 30, 2010 and 2009, there were net sales returns provisions of $29,545 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:

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	**2009**	**2010**	**2009**
Net loss	$ (2,854,442)	$ (4,486,576)	$ (8,693,096)	$ (8,956,103)
Denominator for basic earnings per share weighted average shares	61,049,942	41,576,491	57,874,093	39,803,573
Effect of dilutive securities: Stock options and warrants outstanding [(a)]				
Denominator for diluted earnings per share weighted average shares adjusted for dilutive securities	61,049,942	41,576,491	57,874,093	39,803,573
Loss per common share basic and diluted	$ (0.05)	$ (0.11)	$ (0.15)	$ (0.23)

(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 September 30,		Nine Months ended September 30,	
	2010	**2009**	**2010**	**2009**
Outstanding Stock Options	8,255,650	6,000,000	8,255,650	6,000,000
Outstanding Warrants	4,426,185	2,459,104	4,426,185	2,459,104
Hybrid Debt Instrument		491,667		491,667
Convertible Debt		6,944,000		6,944,000
	12,681,835	15,894,771	12,681,835	15,894,771

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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 September 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 September 30, 2010, the Company experienced net losses of $49,089,000 (unaudited) and cash used in operations was $28,857,000 (unaudited). As of September 30, 2010, the Company had $428,000 of cash in the bank and has not emerged from the development stage. In October 2010, the Company borrowed $150,000 from its Chairman and Chief Executive Officer and $50,000 each from two other company directors under a 5% Convertible Promissory Note (see Note 10). In November, the Company borrowed an additional $150,000 from its Chairman and Chief Executive Officer under the same 5% Convertible Promissory Note (see Note 10). Also in November, the Company received $244,000 from the US Federal Government for qualified investments under the US Federal Government therapeutic discovery project grant program. Additionally, the Company commenced a private placement to sell common stock and warrants to accredited investors. Through November 15, 2010, the Company has received aggregate proceeds of $2,000,000 under this arrangement, and assuming it receives no additional funds, and the holders of the 5% Convertible Promissory Notes exercise the conversion option, estimates that it has sufficient funds to operate through December 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. Therefore, the Company intends to extend the current private placement. 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 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.

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4. Intangible assets and royalty agreement:

Intangible assets activity is summarized as follows:

	Weighted Average Amortization Lives	September 30, 2010 Gross Carrying Value	September 30, 2010 Accumulated Amortization	December 31, 2009 Gross Carrying Value	December 31, 2009 Accumulated Amortization
License-Shriners Hsp for Children & USF Research (a)	10 years	$ **996,000**	**(363,533)**	$ 996,000	$ (288,833)
License SaluMedica LLC Spine Repair (b)	10 years	**2,399,000**	**(943,553)**	2,399,000	(721,541)
License Polyvinyl Alcohol Cryogel (c)	10 years	**2,667,000**	**(658,537)**	2,667,000	(454,300)
Total intangible assets		$ **6,062,000**	$ **(1,965,623)**	$ 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

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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 Option*s 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.

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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:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	6,182,500	$ 1.10		$ 307,535
Granted	2,265,400	$ 1.42		
Exercised	(105,250)	$ 0.98		
Forfeited or cancelled	(87,000)	$ 0.80		
Outstanding at September 30, 2010	8,255,650	$ 1.19	6.5	$ 1,245,538
Vested or expected to vest at September 30, 2010	5,472,717	$ 1.27	5.2	$ 805,736

There were no options exercised during the three months ended September 30, 2010.

Following is a summary of stock options outstanding and exercisable at September 30, 2010:

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	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$0.0001 $0.50	1,011,500	4.0	$ 0.49	569,013	$ 0.48
$0.65 $1.00	3,442,500	6.6	$ 0.80	2,699,693	$ 0.82
$1.04 $1.80	3,051,650	8.3	$ 1.57	1,264,216	$ 1.73
$2.40	750,000	2.0	$ 2.40	939,795	$ 2.40
	8,255,650	6.5	$ 1.19	5,472,717	$ 1.27

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

Unvested Stock Options	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2010	2,520,418	$ 0.50
Granted	2,265,400	$ 1.12
Cancelled/expired	(87,000)	$ 0.41
Vested	(1,915,885)	$ 0.54
Unvested at September 30, 2010	2,782,933	$ 0.91

Total unrecognized compensation expense related to granted stock options at September 30, 2010, was approximately $2,716,868 and will be charged to expense through July 2015.

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

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:

	Nine Months ended	
	September 30, 2010	September 30, 2009
Expected volatility	59.0 60.2%	112.06 140.74%
Expected life (in years)	6	3.5 to 6
Expected dividend yield	0.00%	0.00%

Risk-free interest rate	1.59%	2.75%	1.54%	2.53%

The weighted-average grant date fair value for options granted during the nine months ended September 30, 2010 and 2009 was approximately $1.12 and $0.49, respectively.

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Warrants:
A summary of our common stock warrant activity for the nine months ended September 30, 2010, is as follows:

	Number of Warrants	Weighted-Average Exercise Price per Warrant
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 September 30, 2010	4,426,186	$ 0.94

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 September 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.

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.

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9. Contractual Commitments:

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

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Operating leases	$ 329,576	$ 244,402	$ 85,173	$	$
Minimum Royalties	155,000	25,000	80,000	50,000	
Total contractual obligations	$ 484,576	$ 269,402	$ 165,173	$ 50,000	$

10. Subsequent Events:

Hybrid Debt Instrument

In October 2010, the Company and its Chairman of the Board and CEO as well as two other company directors entered into a Subscription Agreement for a 5% Convertible Promissory Note (Subscription Agreement) and, in connection therewith, issued a 5% Convertible Promissory Note (Note) and a Warrant to Purchase Common Stock (Warrant), which expires in three years.

Under the terms of the Subscription Agreement, the Chairman & CEO has agreed to advance the Company $400,000, and the two company directors have agreed to advance $50,000 each to fund its working capital needs. Such indebtedness is evidenced by the Note, which bears interest at the rate of 5% per annum, is due and payable in full on December 31, 2010, and, at the option of the holder, is convertible into the number of shares of common stock of the Company on the same terms as the Company sells any Common Stock and Warrants between the date of issuance and payment in full of the Note, provided that, once converted, the terms of such conversion are final.

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.

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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 September 30, 2010, Compared to the Three Months Ended September 30, 2009

Revenues

Revenues were approximately $108,000 for the three months ended September 30, 2010, as compared to $0 revenue for the three months ended September 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, the Middle East and Asia. Revenue for the quarter was down from the previous quarter due to health related issues with our European sales representative and a family member. 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.

Cost of Products Sold

Cost of products sold approximated $540,000 during the three months ended September 30, 2010, compared to $0 in the comparable period a year ago. Included in these costs for 2010 are the initial costs to set up production of our CollaFix products. 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. As of September 30, 2010, we employed 9 employees devoted to manufacturing and quality assurance. 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 $106,000 or 11.2% to $843,000 during the three months ended September 30, 2010, compared to approximately $949,000 for the three months ended September 30, 2009. The decrease in expenses reflects the transfer of certain personnel into manufacturing departments to support production, offset by an increase in spending on animal studies. 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 September 30, 2010, we employed 13 employees devoted to research and development, compared to 24 employees devoted to research and development at September 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.

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Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased approximately $121,000 or 8.3% for the three month period ending September 30, 2010, as compared to the same period in 2009. The increase in these expenses was primarily the result of an increase in stock based compensation expense of approximately $138,000. 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 September 30, 2010, we employed 11 personnel in selling, general and administrative functions as compared to 11 as of September 30, 2009.

During the three months ended September 30, 2010, we recorded approximately $114,000 in depreciation expense and $167,000 in amortization expense as compared to $111,000 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 September 30, 2010 and 2009, approximated $333,000 and $262,000, respectively. These amounts are included in Selling, General and Administrative expenses in our statements of operations.

Other Expense/Income

We recorded other expense of approximately $600 during the three months ended September 30, 2010, compared with approximately $2,078,000 of other expense during the three months ended September 30, 2009. The Other expense in 2009 included financing expense of approximately $1,305,000 associated with the issuance of common stock for registration rights waivers and $683,000 associated with warrants issued in connection with a convertible promissory note.

Results of Operations for the Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

Revenues

Net sales for the first nine months ended September 30, 2010, were approximately $545,000 as compared to $0 revenue for the nine months ended September 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 TM Vaso Shield, has received 510(k) clearance for additional thicknesses and sizes. The FDA has now cleared HydrofixTM 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.

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Cost of Products Sold

Cost of products sold approximated $1,355,000 during the nine months ended September 30, 2010, compared to $0 in the comparable period a year ago. Included in the costs for 2010 are the initial costs to set up production of our CollaFix products. As of September 30, 2010, we employed 9 employees in manufacturing and quality assurance. 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 $32,000 or 1.5% to approximately $2,168,000 for the nine months ended September 30, 2010, compared to $2,200,000 during the nine months ended September 30, 2009. Excluding a one-time credit of $153,000 for settlement of disputed prior period accounts payable recorded in the nine months ended September 30, 2009, research and development expenses decreased $185,000 or 8.4% in the period ended September 30, 2010 as compared to the same period in 2009. This decrease is primarily attributable to reductions in headcount, consulting services and the transfer of personnel to manufacturing, offset somewhat by an increase in investments in animal studies required for various regulatory clearances. 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 September 30, 2010, we employed 13 employees devoted to research and development, compared to 24 employees devoted to research and development at September 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 $501,000 or 10.8% for the nine month period ending September 30, 2010, as compared to the same period in 2009. Excluding a one-time credit of $413,000 for settlement of disputed prior year period accounts payable primarily related to legal expense, S,G&A expenses increased $88,000 or 1.9% as compared to the period ended September 30, 2009. The increase is primarily attributable to our investment in Sales & Marketing in support of the planned establishment of our global third party sales distribution network.

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 September 30, 2010, we employed 11 personnel in selling, general and administrative functions as compared to 11 as of September 30, 2009; however, administrative headcount reductions were offset by the addition of sales and marketing personnel.

During the nine months ended September 30, 2010, we recorded $338,000 in depreciation expense and $501,000 in amortization expense as compared to $339,000 and $500,000, 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.

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Share Based Compensation

The total share based compensation recognized during the nine months ended September 30, 2010 and 2009, was approximately $836,000 and $1,162,000 respectively. These amounts are included in Selling, General and Administrative expenses in our statements of operations.

Other Expense/Income

We recorded interest expenses of approximately $593,000 during the nine months ended September 30, 2010, compared with approximately $2,133,000 of other expense during the nine months ended September 30, 2009 including $1,305,000 of expense related to the issuance of additional shares for registration rights waivers and $683,000 of expense related to the issuance of warrants issued in connection with a convertible promissory note.

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 $428,000 of cash and cash equivalents on hand as of September 30, 2010.

As of September 30, 2010, the Company had $428,000 of cash in the bank and has not emerged from the development stage. In October 2010, the Company borrowed $150,000 from its Chairman and Chief Executive Officer and $50,000 each from two other company directors under a 5% Convertible Promissory Note (see Note 10). In November, the Company borrowed an additional $150,000 from its Chairman and Chief Executive Officer under the same 5% Convertible Promissory Note (see Note 10). Also in November, the Company received $244,000 from the U.S. Federal Government for qualified investments under the US Federal Government therapeutic discovery project grant program. Additionally, the Company commenced a private placement to sell common stock and warrants to accredited investors. Through November 15, 2010, the Company has received aggregate proceeds of $2,000,000 under this arrangement, and assuming it receives no additional funds and the holders of the 5% Convertible Promissory Notes exercise the conversion option, estimates that it has sufficient funds to operate through December 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. Therefore, the Company intends to extend the current private placement. 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.

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Discussion of cash flows

Net cash used in operations during the nine months ended September 30, 2010, increased approximately $1,180,000 to $6,171,000 compared to $4,991,000 used in operating activities for the nine month period ended September 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.

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 September 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 nine 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.

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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 three 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 nine months ended September 30, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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.

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

In March, 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.

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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

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SIGNATURES

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

MIMEDX GROUP, INC.

Date: November 15, 2010

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