

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended **December 31, 2016**

**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 **001-35887**

**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)

**1775 West Oak Commons Court, NE Marietta, GA**

(Address of principal executive offices)

**30062**

(Zip Code)

**(770) 651-9100**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$0.001 per share

Securities registered pursuant to Section 12(g) of the Act: None

(Title of class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (§229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of Common Stock held by non-affiliates on June 30, 2016, based upon the last sale price of the shares as reported on the NASDAQ on such date, was approximately \$787,686,000.

There were 108,840,839 shares of Common Stock outstanding as of February 15, 2017.

**Documents Incorporated by Reference**

Portions of the proxy statement relating to the 2017 Annual Meeting of Shareholders, to be filed within 120 days after the end of the fiscal year to which this report relates, are incorporated by reference in Part III of this Report.

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## PART I

This Form 10-K 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 our 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,” “expectation,” “anticipate,” “estimate,” “intend,” “seeks,” “plan,” “project,” “continue,” “predict,” “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.

Forward-looking statements include, but are not limited to, the following:

- the advantages of our products;
- the regulatory pathway for our products;
- our belief regarding the growth of our direct sales force resulting in increased revenues;
- expectations regarding Government and other third-party reimbursement for our products;
- our beliefs regarding our relationships with significant distributors;
- expectations regarding future revenue growth;
- our ability to procure sufficient supplies of human tissue to manufacture and process our products;
- market opportunities for our products and future products;
- prospects for obtaining additional patents covering our proprietary technology as well as successfully defending our existing patents and prohibiting infringement thereof by third-parties;
- the outcome of pending litigation and investigations; and
- our ability to compete effectively.

Actual results and outcomes may differ materially from those expressed or implied in these forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in Part I, Item 1A, "Risk Factors," below. Except as expressly required by the federal securities laws, we undertake no obligation to update any such factors, or to publicly announce the results of, or changes to any of the forward-looking statements contained herein to reflect future events, developments, changed circumstances, or for any other reason.

As used herein, the terms "MiMedx," "the Company," "we," "our" and "us" refer to MiMedx Group, Inc., a Florida corporation, and its consolidated subsidiaries as a combined entity, except where it is clear that the terms mean only MiMedx Group, Inc.

## **Item 1. Business**

### **Overview**

MiMedx® is an integrated developer, processor and marketer of patent protected and proprietary regenerative biomaterial products and bioimplants processed from human placental tissue, skin and bone. "*Innovations in Regenerative Biomaterials*" is the framework behind our mission to provide physicians with innovative products that help the body heal itself. MiMedx is the leading global supplier of amniotic tissue products, having supplied over 700,000 allografts to date in Wound Care, Burns, Surgery, Orthopedics, Spine, Sports Medicine, Ophthalmology and Dentistry.

Through our donor program, a mother who is scheduled to deliver a healthy full-term baby via Caesarean section can elect to donate her placental tissue in lieu of having it discarded as medical waste. MiMedx's procurement network collects the donated human placental tissue which is converted into safe, effective and sterile product at our fully integrated manufacturing facility utilizing our proprietary PURION® Process.

Our biomaterial platform technologies include AmnioFix®, EpiFix®, OrthoFlo, Physio®, and CollaFix™. AmnioFix and EpiFix are our tissue technologies for homologous use processed from human amniotic membrane derived from donated placental tissue. OrthoFlo is our amniotic fluid-derived allograft for homologous use. Physio is a bone grafting material comprised of 100% bone tissue with no added carrier. CollaFix is the next technology platform we plan to commercialize. It is derived from collagen fiber technology designed to mimic the natural composition, structure and mechanical properties of musculoskeletal tissues in order to augment their repair. CollaFix is the only known biological, biodegradable, biomimetic technology that matches human tendon in strength and stiffness.

Our strategic plan aims to provide a more balanced revenue mix and expands our Surgical, Sports Medicine and Orthopedics offerings to include the treatment of joint, ligament and tendon pain in the physician's office.

## Our History

Our current business began on February 8, 2008, when Alynx, Co., our predecessor company, acquired MiMedx, Inc., a Florida-based, privately-held, development-stage medical device company, the assets of which included licenses to two development-stage medical device technology platforms—HydroFix® and CollaFix. On March 31, 2008, Alynx, Co. merged into MiMedx Group, Inc., a Florida corporation and wholly-owned subsidiary that had been formed on February 28, 2008, for purposes of the merger. MiMedx Group, Inc. was the surviving corporation in the merger. In 2010, we commercialized the first medical device product using our HydroFix technology. In 2011 and 2012, we launched additional versions of our HydroFix product line. In January 2011, the Company acquired all of the outstanding equity interests of Surgical Biologics, LLC (“Surgical Biologics”). The acquisition of Surgical Biologics expanded our business by adding allografts and other products processed from human amniotic membrane to our existing medical device product lines based on our HydroFix technology. In 2013, we changed the name of Surgical Biologics to MiMedx Tissue Services, LLC. Due to the relatively small size of the addressable market for our HydroFix product line, we decided to discontinue that product line in the fourth quarter of 2013. Although we have yet to commercialize any products using our CollaFix technology, we continue to believe that technology presents a significant opportunity in the orthopedic and sports medicine markets.

On January 13, 2016, we acquired all of the outstanding common stock of Stability Inc. d/b/a Stability Biologics. The acquisition of Stability was effected by the merger of Stability Inc. into a newly created wholly owned subsidiary of the Company. The new subsidiary was the surviving company in the merger and was subsequently renamed Stability Biologics, LLC (“Stability”). We are working to improve Stability’s manufacturing processes and procedures and integrate its product offerings with our existing surgical, spine and orthopedics portfolio.

For financial information concerning our operating performance, please refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this report and our Consolidated Financial Statements in Part II, Item 8 of this report.

## Our Technology and Products

We are the leading supplier of allografts processed from amniotic tissue, having supplied over 700,000 allografts to date for application in Wound Care, Burns, Surgery, Orthopedics, Spine, Sports Medicine, Ophthalmology and Dentistry. Our amniotic membrane products include our own brands, AmnioFix and EpiFix, as well as products that we supply on a private label or “OEM” basis. We continue to research new opportunities for amniotic tissue, and currently have several additional offerings in various stages of conceptualization and development.

Amniotic membrane is considered immunoprivileged and does not elicit an immune response. Natural human amniotic membrane is composed of multiple layers that contain:

- Structural proteins; including:
  - Collagen types I, III, IV, V, and VII
  - Elastin
- Specialized extracellular matrix proteins; including:
  - Fibrillin
  - Fibronectin
  - Laminins
- TIMPs 1,2,4, Tissue Inhibitor of Metalloproteinase 1, 2, 4
- At least 226 Growth Factors; including but not limited to:
  - Epidermal Growth Factor (EGF)
  - Transforming Growth Factor Beta (TGF-B)
  - Fibroblast Growth Factor (FGF)
  - Platelet Derived Growth Factors AA & BB (PDGF AA&BB)

Published scientific studies show our proprietary technique for processing allografts from amniotic tissue preserves more of the natural characteristics of the tissue than the processes used by many of our competitors. We operate a licensed tissue bank that is registered as a tissue establishment with the United States Food and Drug Administration (“FDA”). We are an accredited member of the American Association of Tissue Banks (“AATB”). We partner with physicians and hospitals to recover donated placental tissue. After consent for donation is obtained, donors are screened for eligibility and the donated

tissue is tested for safety in compliance with federal regulations and AATB standards on communicable disease transmission. All donor records and test results are reviewed by our Medical Director prior to the release of the tissue for processing.

Over several years, we have developed a unique and proprietary technique for processing allografts from the donated placental tissue. The PURION Process produces an allograft that is easy to use and effective. This unique processing technique specifically focuses on preserving the tissue's bioactive growth factor content, and maintaining the structure and collagen matrix of the tissue. The PURION Process also allows the allograft to be stored at room temperature and have a five-year shelf life. Additionally, each sheet allograft incorporates specialized visual embossments that assist the health care practitioner with proper allograft placement and orientation.

MiMedx is dedicated to providing easy to use, effective allografts that exceed customer expectations. To better satisfy the requirements and expectations of our customers, we maintain strict controls on quality at each step of the process beginning at the time of procurement. We have developed and implemented a Quality Management System in compliance with both FDA regulations and AATB standards.

#### EpiFix

Our EpiFix allograft is configured for external use. It is used to enhance healing as well as to modulate inflammation. The EpiFix platform has been used to treat chronic wounds, including diabetic foot ulcers, venous stasis ulcers, arterial ulcers and pressure ulcers, burns and surgical wounds. We offer EpiFix in a sheet form as well as a micronized powder form. The powder can be packed into wounds and is particularly useful for tunneling wounds. Some physicians also choose to mix the powder with saline to inject it into the wound bed and wound margins.

#### AmnioFix

Our AmnioFix allografts are configured for internal use. Currently, our AmnioFix product line consists of three main configurations, AmnioFix, AmnioFix Wrap and AmnioFix Injectable:

- AmnioFix is provided in a sheet form. It is used to modulate inflammation, enhance healing and to minimize scar tissue formation. It has been used in spine, urology and general surgeries.
- AmnioFix Wrap also is supplied in a sheet form and is configured for the same purposes as AmnioFix, but is optimized for use as a "wrap" for nerves, tendons or ligaments.
- AmnioFix Injectable is supplied in micronized powder form used to reduce inflammation while enhancing healing. AmnioFix Injectable has been used to treat conditions such as tendonitis, including plantar fasciitis, lateral epicondylitis, and medial epicondylitis, bursitis, strains and sprains.

#### EpiCord

EpiCord is a minimally manipulated, dehydrated, non-viable cellular umbilical cord allograft that provides a connective tissue matrix to replace or supplement damaged or inadequate integumental tissue.

#### AmnioCord

AmnioCord is a minimally manipulated, dehydrated, non-viable cellular umbilical cord allograft for homologous use that provides a protective environment for the healing process.

#### AmnioFill

AmnioFill is a minimally manipulated, non-viable cellular tissue matrix allograft that contains multiple extracellular matrix proteins, growth factors, cytokines, and other specialty proteins present in placental tissue to help enhance healing.

#### OEM Products

Currently, allografts for ophthalmic surgery and dental applications are sold on an OEM basis pursuant to agreements whereby we have granted third parties exclusive licenses to some of our technology for use in those fields in specified markets. As further discussed below, we also sell products on a non-exclusive OEM basis to Medtronic for spinal procedures and Zimmer Biomet for spine and orthopedic procedures.

## OrthoFlo

OrthoFlo is a human tissue allograft that is derived from amniotic fluid. Amniotic fluid is the liquid contained within the amniotic sac during pregnancy, which protects, cushions, and enhances the mobility of the fetus, and modulates inflammation. Key elements of amniotic fluid include growth factors, carbohydrates, proteins, lipids, electrolytes, and hyaluronic acid. OrthoFlo is provided lyophilized.

## CollaFix

Our CollaFix technology combines an innovative means of creating fibers from soluble collagen and a specialized cross-linking process and products from this platform are likely to be classified as medical devices. Initial laboratory and animal testing shows that the cross-linked collagen fibers produce a very strong, biocompatible, and durable construct that can be transformed into biomechanical constructs intended to treat a number of orthopedic soft-tissue trauma and disease disorders. The technology is licensed from Shriners Hospitals for Children and University of South Florida Research Foundation, Inc. pursuant to an exclusive, world-wide license to practice and use the technology and to manufacture, have manufactured, market, offer for sale and sell products incorporating the technology. The license of the technology is perpetual, except that the license terminates on a country-by-country basis as to any patent or portion thereof included in the licensed technology upon the expiration of such patent or portion thereof in the applicable country. We are currently working to develop and commercialize products using our CollaFix technology and continue to evaluate how best to exploit this technology. We may license rights to specific aspects of our collagen technology to third parties for use in applications and indications that we choose not to exploit ourselves.

We are required to pay a royalty of 3% on all commercial sales revenue from the sale of products incorporating the licensed technology. We also are obligated to pay a \$50,000 minimum annual royalty payment over the life of the license.

## Physio

Physio is a bone grafting material comprised of 100% bone tissue with no added carrier.

## **Intellectual Property**

Our intellectual property includes owned and licensed patents, owned and licensed patent applications and patents pending, proprietary manufacturing processes and trade secrets, and trademarks associated with our technology. Furthermore, we require employees, consultants and advisors to sign Proprietary Information and Inventions Agreements, as well as Nondisclosure Agreements that assign to us and protect the intellectual property existing and generated from their work or that we may otherwise use or own. We believe that our patents, proprietary manufacturing processes, trade secrets, trademarks, and technology licensing rights provide us with important competitive advantages.

### ***Patents and Patent Applications***

Because of the substantial expertise and investment of time, effort and financial resources required to bring new regenerative biomaterial products and implants to the market, the importance of obtaining and maintaining patent protection for significant new technologies, products and processes cannot be underestimated. As of the date of this Form 10-K, we own 33 U.S. patents related to our amniotic tissue technology and products. Approximately, 80 additional patent applications covering aspects of this technology are pending at the United States Patent and Trademark Office and with various international patenting agencies.

Worldwide, our CollaFix and HydroFix technologies are protected with 45 and 14 issued patents, respectively. Additionally, in the U.S. and internationally, there are 30 patent applications pending covering our CollaFix technology.

The vast majority of our domestic patents covering our core amniotic tissue technology and products will not begin to expire until August of 2027.

See discussion below- "Risk Factors" under the heading "***Risks Related to Our Intellectual Property.***"

## **Market Overview**

Domestic sales currently account for most of our revenue, and we are actively pursuing international expansion. In the United States, Wound Care, Burns, Surgery, Orthopedics, Spine, Sports Medicine, Ophthalmology and Dentistry are our key

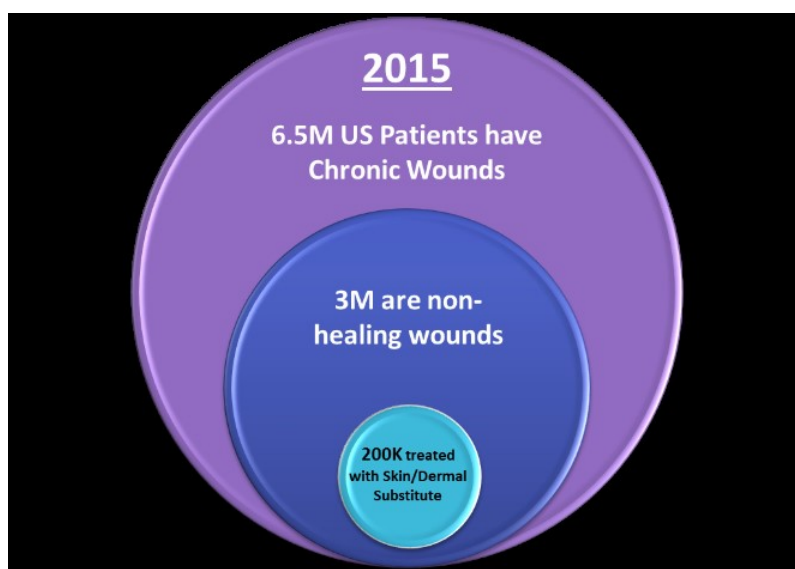
markets. For information on the amount of revenues attributed to our Wound Care products and our SSO products for the past three fiscal years, see the discussion of our results of operations in Item 7 of this Form 10-K.

### **Wound Care**

The wound care market includes traditional dressings such as bandages, gauzes and ointments, which are used to treat non-severe wounds and advanced wound care products such as mechanical devices, advanced dressings and biologics, which are used to treat severe wounds or chronic wounds that have not appropriately closed after 4<sup>5</sup> weeks of treatment with traditional dressings.

In the United States in 2015, there were 6.5 million<sup>1</sup> reported cases of patients suffering from a hard to heal wound with 3.0 million<sup>1</sup> of these patients being a candidate for treatment with an advanced wound care product. Of these 3.0 million patients, MiMedx estimates that 1.4 million suffered from either a diabetic foot ulcer or a venous leg ulcer. The overall cost of treating chronic wounds is rising sharply and in the United States, the current annual estimated cost exceeds \$25 billion<sup>1</sup> dollars.

#### **United States Wound Care Market 2015**



Source: BioMedGPS LLC

Wound Biologics, which includes Skin and Dermal Substitutes, Topical Delivery/Drugs and Collagen/Active Dressings, is the largest segment of the Advanced Wound Care Market. In the United States in 2015, Wound Biologics sales reached \$957 million<sup>1</sup> with Skin and Dermal Substitute Products<sup>1</sup> achieving sales of \$587 million<sup>1</sup>. Skin and Dermal Substitute Products represent the largest segment of the Advanced Wound Care Market. In 2015, in the United States, there were 589,000<sup>1</sup> applications of a Skin and Dermal Substitute Product accounting for treatment of approximately 200,000<sup>1</sup> of the 3.0 million chronic non-healing wounds. Also in 2015, Amniotic Tissue replaced Xenograft<sup>1</sup> as the largest product category in the Skin and Dermal Substitute Market.

In the United States, Skin and Dermal Substitute Market growth is expected to primarily be driven by (a) the aging population (b) the rising incidence of obesity, diabetes and other diseases that compromise blood flow and (c) acceleration in the shift away from using traditional wound care products to using advanced wound care products. We believe physician education and increased understanding of the benefits of new wound care technologies, supported by a growing library of Level 1 Scientific Evidence and the emergence of updated clinical practice guidelines that improve patient care and outcomes, will be the main drivers of this shift. MiMedx estimates that in 2020 the Domestic Skin and Dermal Substitute Market will reach sales of \$1.1 billion with Amniotic Tissue capturing 49% market share up from 29%<sup>1</sup> in 2014.

Traditional dressings such as bandages, gauzes and ointments currently represent the “standard of care” for treating chronic wounds such as diabetic foot ulcers, venous leg ulcers, pressure ulcers and arterial ulcers. If after four weeks of use,

the wound has not responded appropriately to “standard of care” therapy, clinical research has shown that Advanced Therapy such as a Skin and Dermal Substitute should be introduced into the patient’s treatment plan. According to market data provided by BioMedGPS, MiMedx’s EpiFix is the current product of choice for physicians choosing to use a Skin and Dermal Substitute Product. EpiFix contains essential wound healing factors, extracellular matrix proteins and inflammatory mediators to help modulate inflammation, enhance healing, and reduce scar tissue formation and, unlike some competing technologies, is not limited to a specific wound type. EpiFix stores at ambient temperature for up to five years compared to certain cultured skin substitutes currently on the market that require cryogenic freezer storage and expire within days to months from time of processing. In addition, we market multiple sizes of EpiFix (from 1.5cm<sup>2</sup> to 49cm<sup>2</sup>) which minimizes product waste and reduces the overall cost to closure when compared to former market leading products.

### ***Surgical, Sports Medicine and Orthopedics***

Our AmnioFix tissue allografts have been used to enhance healing in patients undergoing surgical procedures to help to reduce scar tissue formation in a variety of applications including, but not limited to, plastic surgery, general surgery, gynecological, urology, orthopedics, spine, and sports medicine.

AmnioFix can be used as a barrier membrane in procedures where scar tissue formation may be problematic. AmnioFix Wrap is applied by wrapping target tissues (ligaments, tendons, and or nerves) to create a barrier, which performs two functions: it acts as a neo-sheath to protect the target tissue and provides extracellular matrix proteins, cytokines and chemokines to enhance the wound healing process. AmnioFix provides additional benefits, including anti-inflammatory agents and growth factors that may assist with healing.

#### Spine/Orthopedics

There are approximately 1.47 million spinal surgeries per year<sup>2</sup> and most of them potentially could use AmnioFix to reduce scarring and modulate inflammation during the primary procedure, which may reduce time during revisions or follow-up surgeries. A reduction of scar tissue is beneficial if the patient needs to have an additional surgical procedure in the future, as it may facilitate the re-access to the surgical site, as well as help with minimizing scar attachment to the spinal dura in spine surgery. In addition to spinal surgeries, the AmnioFix offerings have been used in Arthroplasty (total joint replacement) of the knee, hip, shoulder, ankle, hand and elbow.

#### Sports Medicine

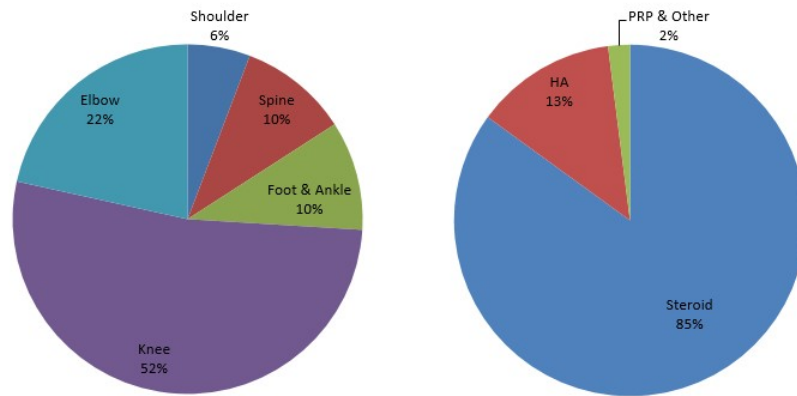
There are an estimated 90,000<sup>3</sup> peripheral nerve injuries which require repair each year and an estimated 8.4<sup>4</sup> million patients who have tendinopathy associated with inflammation who potentially could benefit from our AmnioFix products. AmnioFix Wrap is a surgical implant that has multiple features desired by surgeons to support the repair and replacement of ligaments, tendons and repaired nerves. AmnioFix Injectable and AmnioFix Sports Med address the chronic sports/work soft tissue injury market, including but not limited to tennis elbow, golfers elbow, plantar fasciitis, tendonitis, bursitis and sprains. Soft tissue injuries are often caused by either trauma or overuse of the affected area. Micro-tears in the tissue form and become inflamed. Scar tissue may form and impede a full recovery. Steroids are often used as a first line to help the patient cope with the pain and assist with recovery. There are a number of patients who do not get relief with steroids or do not want to use steroids, and over-use of steroids can cause long-term damage to the tissue. AmnioFix Injectable and AmnioFix Sports Med may be used to modulate inflammation and reduce scar tissue formation, while enhancing healing.

#### Physician Office Pain Management

OrthoFlo, AmnioFix Injectable and AmnioFix Sports Med address chronic pain caused by osteoarthritis or inflammation of and/or damage to a ligament or tendon. After oral non-habit forming pain medication fails to relieve a patient's pain, injecting medicine into the affected joint, ligament or tendon is the next most common treatment option to help a patient cope with their pain. In the United States in 2015, 14.9 million<sup>1</sup> injections were performed to treat pain in the shoulder, spine, foot, ankle, knee, and elbow. The majority of these injections were into the knee (7.8 million<sup>1</sup>) and elbow (3.2 million<sup>1</sup>) with steroid (85%<sup>1</sup>) being the most commonly injected product.



### US Pain Injection Market - 2015



Source: BioMedGPS LLC

Because a number of patients do not get relief from steroid injections or do not want to use steroids given their potential to damage human tissue, the pain market is searching for new products that are as effective as steroid in treating these patients but safer. MiMedx OrthoFlo, AmnioFix Injectable and AmnioFix Sports Med lubricate, modulate inflammation and reduce scar tissue formation, while enhancing healing, and are being investigated as potential product candidates for this market.

Market overview numbers derived from the following sources:

1. BioMedGPS SmartTRAK Business Intelligence
2. iData 2012, U.S. Market for Spinal Implants
3. Stabenfeldt, SE, Garcia, AJ, LaPlaca, MC. Thermoreversible laminin-functionalized hydrogel for neural tissue engineering. *J of Bio Materials Research. Part A*, 2006. 77: p. 718-725
4. Millenium 2013, clinical articles and management internal estimates
5. Sheehan P., Jones P., Caselli A., Giurini JM., Veves A. Percent change in wound area of diabetic foot ulcers over a 4-week period is a robust predictor of complete healing in a 12-week prospective trial. *Diabetes Care* 2003;26:1879-1882 [PubMed]

### Marketing and Sales

As of February 2017, our field sales force is comprised of approximately 320 sales professionals who call on hospitals, wound care clinics, physician offices and federal health care facilities such as Department of Veterans Affairs and Department of Defense Hospitals. Our direct sales force focuses on the Wound Care market and the SSO (Surgical, Sports Medicine and Orthopedics) market, though, on the SSO side, we have continued to maintain a network of independent sales agents and distributors to sell sports medicine and orthopedic spine specialties lines.

We continue to pursue private label or “OEM” relationship, to date the most notable of which are Medtronic and Zimmer Biomet. In September 2013, we entered into a non-exclusive distribution agreement with Medtronic, Inc. and its wholly-owned subsidiary, SpinalGraft Technologies, LLC (SGT). Under the agreement, MiMedx provides our PURION Processed grafts to Medtronic to be marketed by SGT under the RDX2® brand name for spinal applications throughout the United States.

In September 2014, we entered into a non-exclusive distribution agreement with Zimmer Biomet to distribute AmnioFix under its private label brand, AmnioRepair®. Under the agreement, Zimmer markets AmnioRepair for reconstructive, sports medicine, trauma, extremities and spine applications in the U.S. These partnerships allow us to leverage

the sales and distribution resources of significant industry companies. In the ophthalmic and dental markets, our products are still marketed exclusively through licensee companies in each such field.

## **Reimbursement**

A significant portion of our products are purchased for U.S. Government accounts, which do not depend on reimbursement from third parties. With the exception of Government accounts, most users of our products are physicians, hospitals or ambulatory surgery centers that rely on reimbursement by third-party payers. Accordingly, our growth substantially depends on adequate levels of third-party reimbursement for our products from these payers. In the U.S., such payers include U.S. Governmental programs (e.g., Medicare and Medicaid), private insurance plans, managed care programs and workers' compensation plans. Governmental payment programs have prescribed coverage criteria and reimbursement rates for medical products, services and procedures. Similarly, private third-party payers have their own coverage criteria and negotiate payment levels for medical products, services and procedures. In addition, in the U.S., an increasing percentage of insured individuals are receiving their medical care through managed care programs, which monitor and may require pre-approval of the products and services that a member receives.

### ***EpiFix Sheet Products and EpiCord***

#### Medicare Coverage

By far, the largest third party payer in the United States is the Medicare program, which is a federally-funded program that provides healthcare coverage for senior citizens and the disabled. The Medicare program is administered by the Centers for Medicare and Medicaid Services (CMS). The CMS has appointed eight Medicare Administrative Contractors (MACs), which are private insurance companies that serve as agents of the CMS in the administration of the Medicare program, including making coverage decisions and paying claims for the designated Medicare jurisdiction. Each MAC has its own standards and process for determining coverage and reimbursement for a procedure or product. Private payers often follow the lead of Governmental payers in making coverage and reimbursement determinations. Therefore, achieving favorable Medicare coverage and reimbursement is usually a significant gating factor for successful coverage and reimbursement for a new product by the private payer.

The coverage and reimbursement framework for products under Medicare is determined in accordance with the Social Security Act and pursuant to regulations promulgated by the CMS, as well as the agency's regulatory coverage and reimbursement determinations. Ultimately, however, each of the MACs determine whether and on what conditions they will provide coverage for the product. Such decisions are based on their assessments of the science and efficacy of the applicable product. As noted below under the heading "Research and Development," we have devoted significant resources to clinical studies to provide data to the MACs, as well as other payers, in order to demonstrate the efficacy and clinical effectiveness of our EpiFix sheet products. As of the date of this report, our EpiFix sheet products are eligible for coverage by all eight of the Medicare Contractors.

For Medicare reimbursement purposes, our EpiFix sheet products are classified as "skin substitutes." Current reimbursement methodology varies between the hospital outpatient department (HOPD) and ambulatory surgery center (ASC) setting versus the physician office. Our EpiFix sheet allografts come in many sizes to appropriately fit the size of the patient's wound. Some competitive products come in one size only with the product size significantly larger than the wounds they are used to treat. The provider has to cut these products to fit the wound size, with the rest of the product discarded, and, therefore, wasted. Formerly, reimbursement for these products was based on the size of the graft and the Medicare payment for these grafts was costly. In 2014, CMS implemented a new reimbursement methodology in the HOPD and ASC, in part to combat this wastage. Currently, skin substitutes are reimbursed under a "packaged" or "bundled" methodology along with the related application procedure under a two-tier payment system. Thus, in the HOPD setting, providers receive a single payment that reimburses for the application of the product as well as the product itself. CMS also classifies skin substitutes into low cost or high cost groups, based on a weighted per square centimeter average. In 2016, the weighted average mean unit cost to determine the high and low cost group was \$25 per sq. cm. The national average packaged rate was \$1,371 in 2014, \$1,407 in 2015, \$1,411 in 2016, and \$1,427 in 2017. All skin substitute products administered in the HOPD setting are bundled except for those that have been approved by CMS for pass-through status. This "bundled" payment structure applies only to the HOPD and ASC settings.

Currently, providers that administer EpiFix allografts and other skin substitutes in the physician office setting are reimbursed based on the size of the graft, computed on a per square centimeter basis. The payment rate is calculated using the manufacturer's reported average sales price (ASP) submitted quarterly to CMS. This payment methodology applies only to physician offices. The Medicare payment rates are updated quarterly based on this ASP information. The skin substitute Medicare payment rate established by statute is ASP plus 6%.

We believe the current payment methodology in the physician office setting at ASP plus 6%, coupled with our success in gaining payer coverage with Medicaid and commercial payers will provide us with opportunities to increase our market share in 2017.

Beginning April 1, 2013 Medicare payments for all items and services, including EpiFix sheet products, have been reduced by 2% under the sequestration required by the Budget Control Act of 2011, Pub. L. No. 112-25, as amended by the American Taxpayer Relief Act of 2012, Pub. L. 112-240. This sequestration is subject to change with the new administration, and is currently under review.

In January 2017, EpiCord was included in the CMS Q Code, Q4131, which is also the Q code specified for EpiFix.

#### Private Payers

We continue to devote considerable resources to clinical trials to support coverage and reimbursement of our products and have confirmed an increasing number of private payers that reimburse for EpiFix in the physician office, the HOPD, and the ASC settings. Coverage and reimbursement varies according to the patient's health plan and related benefits. More than 800 health plans currently provide coverage for EpiFix for the treatment of Diabetic Foot Ulcers (DFUs). Venous Leg Ulcers (VLUs) are also covered by a series of payers. At the close of 2016, we reported coverage of over 298 million lives, including all of the Medicare MACs, and over 36 State Medicaid plans. We have established and continue to grow a reimbursement support group to educate and assist providers and patients with regard to reimbursement for our products.

#### Hospital Use

EpiFix products administered in the hospital setting are bundled when submitted as part of the hospital's claim under a diagnosis-related group (DRG). In these cases, we continue to educate the hospital that the product is both efficacious, resulting in positive healing outcomes and a reduced length-of-stay, as well as cost-effective.

#### **AmnioFix Sheet Products**

Our AmnioFix surgical products are also bundled under a DRG as part of a hospital's claim related to the length-of-stay. As noted above, with respect to EpiFix, the ability to sell products in the hospital market is dependent upon demonstrating to the hospital that the product's efficacy results in positive healing outcomes, provides the potential for a reduced length-of-stay, and is cost-effective.

#### **EpiFix and AmnioFix Micronized Products**

Currently, our micronized products are available for coverage by only a limited number of commercial and state Medicaid plans.

#### **Other Products**

There is currently no specific third-party reimbursement available for OrthoFlo, AmnioCord, AmnioFill or Physio, except to the extent such products are bundled as part of a hospital's claim under a DRG.

See discussion below- "Risk Factors" under the heading ***"Our revenues depend on adequate reimbursement from public and private insurers and health systems."***

#### **Customer Concentration**

We have significant sales to Government accounts. Some of the Company's sales to Government accounts, including the Department of Veterans Affairs, are made through a distributor relationship with AvKARE, Inc. ("AvKARE") which is a veteran-owned General Services Administration Federal Supply Schedule (FSS) contractor. The Company's agreement with AvKARE expires, subject to certain for-cause termination rights, on June 30, 2017. The Company may also elect to terminate

the agreement without cause and pay a termination fee to AvKARE as specified in the agreement. Upon termination of the agreement, the parties may mutually agree to extend the agreement or the Company has an obligation to repurchase AvKARE's remaining inventory, if any, within ninety (90) days in accordance with the terms of the agreement. At the end of the term, the parties expect AvKARE's inventory to be minimal, based upon AvKARE's obligation to use commercially reasonable efforts to achieve target sales levels over the remaining term of the agreement.

See discussion below- "Risk Factors" under the heading "***A significant portion of our revenues and accounts receivable come from Government accounts***".

## **Competition**

Competition in the regenerative medicine field is intense and subject to rapid technological change. Companies within the industry compete on the basis of product efficacy, pricing, and ease of handling/logistics. However, the most important factor is third-party reimbursement, which is difficult to obtain as it is a time-consuming and expensive process. We believe our success in obtaining third-party reimbursement for our products is a significant competitive advantage.

We compete in multiple areas of clinical treatment where regenerative biomaterials may be employed to modulate inflammation, enhance healing and reduce scar tissue formation: advanced wound care treatment, spine, orthopedic, surgery and sports medicine. The EpiFix product line is promoted primarily for external use such as advanced wound healing, while the AmnioFix products are positioned for healing of surgical wounds and have been used in spine, orthopedics, surgical and sports medicine applications.

Advanced wound care therapies employ technologies to aid in wound healing in cases where the healing has stalled or stopped. The primary competitive products in this space include other amniotic membrane allografts, tissue-engineered living skin equivalents, and porcine- or bovine-derived collagen matrix products, among others. In 2016, our main competitor was Organogenesis, Inc., the manufacturer of Dermagraft®, Apligraf® and PuraPly®. These products are tissue-engineered living skin equivalents that require special shipping and/or storage in freezers. The Organogenesis products also come in only one large size each, which is significantly larger than the median wound size for the wounds they are used to treat, resulting in a high cost product, much of which is wasted. We have competed effectively against Dermagraft and Apligraf based on clinical efficacy, cost effectiveness, ease of use and storage of our products. Other smaller competitors include the Osiris Therapeutics, Inc. product Grafix® and other single-layer amnion products.

Smith & Nephew's Oasis® is the primary competitive product among the porcine- or bovine- derived collagen matrix products. As a collagen it can help with providing a matrix in the wound; however, it offers limited growth factors to enhance healing and due to the porcine origin may cause an immune response in the patient.

The primary competitive products in the SSO market are other amniotic membrane allografts and injectable solutions.

See discussion below- "Risk Factors" under the heading "***We are in a highly competitive and evolving field and face competition from well-established tissue processors and medical device manufacturers, as well as new market entrants.***"

## **Government Regulation**

### ***FDA Premarket Clearance and Approval Requirements***

#### *Tissue Products*

The products manufactured and processed by the Company are derived from human tissue. As discussed below, some tissue-based products are regulated solely under Section 361 of the Public Health Service Act as human cells, tissues and cellular and tissue-based products, or HCT/Ps, which do not require premarket clearance or approval by the FDA. Other tissue products are regulated as biologics and, in order to be lawfully marketed in the United States, require an FDA-approved biologics application (BLA).

#### *Products Regulated as HCT/Ps*

The FDA has specific regulations governing human cells, tissues and cellular and tissue-based products, or HCT/Ps. An HCT/P is a product containing or consisting of human cells or tissue intended for transplantation into a human patient. HCT/Ps that meet the criteria for regulation solely under Section 361 of the Public Health Service Act (so-called "361 HCT/Ps") are not subject to any premarket clearance or approval requirements but are subject to post-market regulatory requirements.

To be a 361 HCT/P, a product generally must meet all four of the following criteria:

- It must be minimally manipulated;
- It must be intended for homologous use;
- Its manufacture must not involve combination with another article, except for water, crystalloids or a sterilizing, preserving or storage agent; and
- It must not have a systemic effect and must not be dependent upon the metabolic activity of living cells for its primary function.

If an HCT/P meets all the above criteria, no FDA review for safety and effectiveness under a drug, device, or biological product marketing application is required. We believe that our amniotic tissue allografts are 361 HCT/Ps, including the micronized versions of EpiFix and AmnioFix.

However, on August 28, 2013, the FDA issued an Untitled Letter alleging that our micronized amniotic tissue allografts do not meet the criteria for regulation solely under Section 361 of the Public Health Service Act and that, as a result, MiMedx would need a biologics license to lawfully market those micronized products. Since the issuance of the Untitled Letter, we have been in discussions with the FDA to communicate its disagreement with the FDA's assertion that our allografts are more than minimally manipulated. To date, the FDA has not changed its position that our micronized products are not eligible for marketing solely under Section 361 of the Public Health Service Act. We continue to market the micronized products but are also pursuing the Biologics License Application ("BLA") process for certain of our micronized products.

On December 22, 2014, the FDA issued for comment "Draft Guidance for Industry and FDA Staff: Minimal Manipulation of Human Cells, Tissues, and Cellular and Tissue-Based Products." Essentially the Minimal Manipulation draft guidance takes the same position with respect to micronized amniotic tissue that it took in the Untitled Letter to MiMedx 16 months earlier. We submitted comments asserting that the Minimal Manipulation draft guidance represents agency action that goes far beyond the FDA's statutory authority, is inconsistent with existing HCT/ P regulations and the FDA's prior positions, and is internally inconsistent and scientifically unsound.

On October 28, 2015, the FDA issued for comment, "Draft Guidance for Industry and FDA Staff: Homologous Use of Human Cells, Tissues, and Cellular and Tissue-Based Products." We submitted comments on this Homologous Use draft guidance as well. On September 12 and 13, 2016, the FDA held a public hearing to obtain input on the Homologous Use draft guidance and the previously released Minimal Manipulation draft guidance, as well as other recently issued guidance documents on HCT/Ps. The Company awaits further decision from FDA on the draft guidances, but anticipates this will be a lengthy process.

See discussion below- "Risk Factors" under the heading ***"To the extent our products do not qualify for regulation as human cells, tissues and cellular and tissue-based products under Section 361 of the Public Health Service Act, this could result in removal of the applicable products from the market, would make the introduction of new tissue products more expensive and significantly delay the expansion of our tissue product offerings and subject us to additional post-market regulatory requirements."***

#### *Products Regulated as Biologics- The Biologics License Application (BLA) Pathway*

The typical steps for obtaining FDA approval of a BLA to market a biologic product in the U.S. include:

- Completion of preclinical laboratory tests, animal studies and formulations studies under the FDA's good laboratory practices regulations;
- Submission to the FDA of an Investigational New Drug Application (IND) for human clinical testing, which must become effective before human clinical trials may begin and which must include independent Institutional Review Board (IRB) approval at each clinical site before the trials may be initiated;
- Performance of adequate and well-controlled clinical trials in accordance with Good Clinical Practices to establish the safety and efficacy of the product for each indication;
- Submission to the FDA of a BLA for marketing the product, which includes, among other things, reports of the outcomes and full data sets of the clinical trials, and proposed labeling and packaging for the product;

- Satisfactory review of the contents of the BLA by the FDA, including the satisfactory resolution of any questions raised during the review;
- Satisfactory completion of an FDA Advisory Committee review, if applicable;
- Satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the product is produced to assess compliance with Current Good Manufacturing Practices (cGMP) regulations, to assure that the facilities, methods and controls are adequate to ensure the product's identity, strength, quality and purity; and
- FDA approval of the BLA, including agreement on post-marketing commitments, if applicable.

Generally, clinical trials are conducted in three phases, though the phases may overlap or be combined. Phase I trials typically involve a small number of healthy volunteers and are designed to provide information about the product safety and to evaluate the pattern of drug distribution and metabolism within the body. Phase II trials are conducted in a larger but limited group of patients afflicted with a particular disease or condition in order to determine preliminary efficacy, dosage tolerance and optimal dosing and to identify possible adverse effects and safety risks. Dosage studies are designated as Phase IIA and efficacy studies are designated as Phase IIB. Phase III clinical trials are generally large-scale, multi-center, comparative trials conducted with patients who have a particular disease or condition in order to provide statistically valid proof of efficacy, as well as safety and potency. In some cases, the FDA will require Phase IV, or post-marketing trials, to collect additional data after a product is on the market. All phases of clinical trials are subject to extensive record keeping, monitoring, auditing, and reporting requirements. As indicated above, the Company is pursuing the Biologics License Application ("BLA") process for certain of its micronized products. On July 22, 2014, we filed our first IND application with the FDA. In response to the IND application, the FDA agreed we had sufficient data to begin a Phase IIB clinical trial of our micronized product for a specified indication of use in anticipation of a BLA, which we expect to submit at a future date. The clinical trial was initially powered to enroll approximately 150 patients in 10 - 20 clinical sites in the U.S. We initiated the trial in March of 2015, and have now nearly completed the study, with 13 sites currently enrolling out of a total of 20 engaged. We submitted an Annual Report and Interim Analysis Report to FDA on October 22, 2016. If the endpoint change is accepted by FDA, no additional subjects would be required to complete the enrollment phase of study. Enrollment is otherwise scheduled to be completed within the second quarter of 2017. Preliminary safety information, including laboratory testing in a cohort of participants, continues to demonstrate safety of the product in standard use. The Company anticipates moving ahead with a Phase III filing within the second quarter of 2017.

The process of obtaining an approved BLA requires the expenditure of substantial time, effort and financial resources and may take years to complete. The fee for filing a BLA and the annual user fees payable with respect to any establishment that manufactures biologics and with respect to each approved product are substantial.

See discussion below- "Risk Factors" under the heading ***"Obtaining and maintaining the necessary regulatory approvals for certain products will be expensive and time-consuming and may impede our ability to fully exploit our technologies."***

#### Medical Devices

Products from our CollaFix product platform are likely to be classified by the FDA as medical devices. Medical Devices are classified as I, II and III in the U.S., with Class II and III requiring either a 510(k) clearance or Premarket Approval ("PMA") from the FDA prior to marketing. Devices deemed substantially equivalent to legally marketed devices are deemed to pose relatively less risk and are deemed Class I and II. Manufacturers are required to submit a premarket notification requesting clearance for commercial distribution. This is known as 510(k) clearance, which indicates that the device is substantially equivalent to devices already legally on the market. Most Class I devices are considered very low risk and are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or devices deemed not substantially equivalent to a previously 510(k) cleared device or a pre-amendment Class III device for which PMA applications have not been required, are placed in Class III, requiring PMA. Although we may be able to obtain approval for some products through the 510(k) clearance process, in order to fully exploit the CollaFix technology, one or more PMA applications would likely be required.

Like the process of obtaining an approved BLA, the process of obtaining a PMA requires the expenditure of substantial time, effort and financial resources and may take years to complete.

#### ***FDA Post Market Regulation***

Tissue processors are required to register as an establishment with the FDA. As a registered establishment, we are required to comply with regulations regarding labeling, record keeping, donor eligibility, and screening and testing, process the tissue in accordance with established Good Tissue Practices, and report any adverse reactions attributed to our tissue. Our facilities are also subject to periodic inspections to assess our compliance with the regulations.

Products covered by a BLA, 510(k) clearance, or a PMA are subject to numerous additional regulatory requirements, which include, among others, compliance with cGMP, which imposes certain procedural, substantive and record keeping requirements, labeling regulations, the FDA's general prohibition against promoting products for unapproved or "off-label" uses, and additional adverse event reporting.

#### ***Other Regulation Specific to Tissue Products***

We are accredited by the American Association of Tissue Banks (AATB), which has issued operating standards for tissue banking. Compliance with these standards is a requirement in order to become a licensed tissue bank. In addition, some states have their own tissue banking regulations.

In addition, procurement of certain human organs and tissue for transplantation is subject to the restrictions of the National Organ Transplant Act ("NOTA"), which prohibits the transfer of certain human organs, including skin and related tissue, for valuable consideration, but permits reasonable payment associated with the removal, transportation, implantation, processing, preservation, quality control and storage of human tissue and skin. We reimburse tissue banks, hospitals and physicians for their services associated with the recovery, storage and transportation of donated human tissue.

See discussion below- "Risk Factors" under the heading "***Our business is subject to continuing regulatory compliance by the FDA and other authorities, which is costly and our failure to comply could result in negative effects on our business***".

#### ***Fraud, Abuse and False Claims***

We are directly and indirectly subject to various federal and state laws governing relationships with healthcare providers and pertaining to healthcare fraud and abuse, including anti-kickback laws. In particular, the federal healthcare program Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for or recommending a good or service for which payment may be made in whole or part under federal healthcare programs, such as the Medicare and Medicaid programs. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. In implementing the statute, the Office of Inspector General of the U.S. Department of Health and Human Services ("OIG") has issued a series of regulations, known as the "safe harbors." These safe harbors set forth provisions that, if all their applicable requirements are met, will assure healthcare providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable element of a safe harbor may result in increased scrutiny by Government enforcement authorities, such as the OIG. Many states have laws similar to the federal law.

AdvaMed is one of the primary voluntary U.S. trade associations for medical device manufacturers. This association has established guidelines and protocols for medical device manufacturers in their relationships with healthcare professionals on matters including research and development, product training and education, grants and charitable contributions, support of third-party educational conferences, and consulting arrangements. Adoption of the AdvaMed Code by a medical device manufacturer is voluntary, and while the OIG and other federal and state healthcare regulatory agencies encourage its adoption and may look to the AdvaMed Code, they do not view adoption of the AdvaMed Code as proof of compliance with applicable laws. As part of a Company-wide compliance plan, we have incorporated the principles of the AdvaMed Code in our standard operating procedures, sales force training programs, and relationships with health care professionals. Key to the underlying principles of the AdvaMed Code is the need to focus the relationships between manufacturers and healthcare professionals on matters of training, education and scientific research, and limit payments between manufacturers and healthcare professionals to fair market value for legitimate services provided and payment of modest meal, travel and other expenses for a healthcare professional under limited circumstances. We have incorporated these principles into our relationships with healthcare professionals under our consulting agreements, and our policies regarding payment of travel and lodging expenses, research and educational grant procedures and sponsorship of third-party conferences.

See discussion below- “Risk Factors” under the heading ***“We and our sales representatives, whether employees or independent contractors, must comply with various federal and state anti-kickback, self-referral, false claims and similar laws, any breach of which could cause a material adverse effect on our business, financial condition and results of operations.”***

### **Manufacturing (Processing)**

In early 2014, we expanded our production capacity from one location in Kennesaw, Georgia, by adding a second and significantly larger, manufacturing facility within our headquarters building in Marietta, Georgia. Effective January 2014, our main processing operations were relocated to the Marietta, Georgia facility. The Kennesaw facility serves as a secondary processing site. We also perform research and early stage product and process development activities in our Marietta and Kennesaw, Georgia, locations. Stability maintains a facility in San Antonio, Texas for tissue processing.

We are registered with the FDA as a tissue establishment and are subject to the FDA’s quality system regulations, state regulations, and regulations promulgated by the European Union. Our facilities are subject to periodic unannounced inspections by regulatory authorities, and may undergo compliance inspections conducted by the FDA and corresponding state and foreign agencies.

### **Placental Donation Program**

We have a comprehensive network of hospitals that participate in our placenta donation program. We have a dedicated staff that works at these hospitals, collecting donated placentas from mothers who undergo Cesarean section births and consent to donation. We believe that we will be able to procure an adequate supply of tissue to meet anticipated demand. However, see discussion below- “Risk Factors” under the heading ***“Our products are dependent on the availability of sufficient quantities of tissue from human donors, and any disruption in supply could adversely affect our business.”***

### **Research and Development**

Our research and development group has extensive experience in developing products related to our field of interest, and works to design products that are intended to improve patient outcomes, simplify techniques, shorten procedures, reduce hospitalization and rehabilitation times and, as a result, reduce costs. Clinical trials that demonstrate the safety, efficacy and cost effectiveness of our products are key to obtaining broader reimbursement for our products. In addition to our internal staff, we contract with outside labs and physicians who aid us in our research and development process. See Part II, Item 7 below for information regarding expenditures for research and development in each of the last three fiscal years.

In addition to the numerous published scientific studies, our allograft is the first and only dHACM product to meet the requirements of the USP (United States Pharmacopeia) Monograph for amniotic membrane allografts. This monograph includes both EpiFix and AmnioFix sheet products, and is the culmination of several years of work to define specifications, review, and test those specifications to ensure they accurately define the dHACM product with high manufacturing standards.

### **Environmental Matters**

Our tissue preservation activities generate some chemical and biomedical wastes, consisting primarily of diluted alcohols and acids, and human and animal pathological and biological wastes, including human and animal tissue and body fluids removed during laboratory procedures. The chemical and biomedical wastes generated by our tissue processing operations are placed in appropriately constructed and labeled containers and are segregated from other wastes. We contract with third parties for transport, treatment, and disposal of waste. We strive to remain compliant with applicable laws and regulations promulgated by the Resource Conservation and Recovery Act, the U.S. Environmental Protection Agency and similar state agencies.

### **Employees**

As of December 31, 2016, we had approximately 690 employees. We consider our relationships with our employees to be satisfactory. None of our employees is covered by a collective bargaining agreement.

### **Available Information**

Our website address is [www.mimedx.com](http://www.mimedx.com). We make available on this website under “Investors - SEC Filings,” free of charge, our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. In addition, we post filings of Forms 3, 4, and 5 filed by our directors, executive officers and ten percent or more



shareholders. We also make available on this website under the heading “Investors - Corporate Governance” our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee Charters as well as our Code of Business Conduct and Ethics.

The reference to our website does not constitute incorporation by reference of any information contained at that site.

## Item 1A. Risk Factors

### Risks Related to Our Business and Industry

*Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside of our control.*

We are subject to the following factors, among others, that may negatively affect our operating results:

- The announcement or introduction of new products by our competitors;
- Failure of Government and private health plans to adequately and timely reimburse the users of our products;
- Removal of our products from the Federal Supply Schedule or change in the prices that Government accounts will pay for our products;
- Our ability to upgrade and develop our systems and infrastructure to accommodate growth;
- Our ability to attract and retain key personnel in a timely and cost effective manner;
- The amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure;
- Regulation by federal, state or local Governments; and
- General economic conditions as well as economic conditions specific to the healthcare industry.

We have based our current and future expense levels largely on our investment plans and estimates of future events, although certain of our expense levels are, to a large extent, fixed. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenue relative to our planned expenditures would have an immediate adverse effect on our business, results of operations and financial condition. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions that could have a material and adverse effect on our business, results of operations and financial condition. Due to the foregoing factors, our revenue and operating results are and will remain difficult to forecast.

*We are in a highly competitive and evolving field and face competition from well-established tissue processors and medical device manufacturers, as well as new market entrants.*

Our business is in a very competitive and evolving field. Competition from other tissue processors, medical device companies and from research and academic institutions is intense, expected to increase, subject to rapid change, and could be significantly affected by new product introductions. In addition, consolidation in the healthcare industry continues to lead demands for price concessions or to the exclusion of some suppliers from certain of our markets, which could have an adverse effect on our business, results of operations or financial condition. The presence of this competition in our market may lead to pricing pressure, which would make it more difficult to sell our products at a price that will make us profitable or prevent us from selling our products at all. Our failure to compete effectively would have a material and adverse effect on our business, results of operations and financial condition.

*Rapid technological change could cause our products to become obsolete and if we do not enhance our product offerings through our research and development efforts, we may be unable to effectively compete.*

The technologies underlying our products are subject to rapid and profound technological change. Competition intensifies as technical advances in each field are made and become more widely known. We can give no assurance that others will not develop services, products, or processes with significant advantages over the products, services, and processes that we offer or are seeking to develop. Any such occurrence could have a material and adverse effect on our business, results of operations and financial condition.

We plan to enhance and broaden our product offerings in response to changing customer demands and competitive pressure and technologies. The success of any new product offering or enhancement to an existing product will depend on numerous factors, including our ability to:

- properly identify and anticipate physician and patient needs;

- develop and introduce new products or product enhancements in a timely manner;
- adequately protect our intellectual property and avoid infringing upon the intellectual property rights of third parties;
- demonstrate the safety and efficacy of new products; and
- obtain the necessary regulatory clearances or approvals for new products or product enhancements.

If we do not develop and, when necessary, obtain regulatory clearance or approval for new products or product enhancements in time to meet market demand, or if there is insufficient demand for these products or enhancements, our results of operations will suffer. Our research and development efforts may require a substantial investment of time and resources before we are adequately able to determine the commercial viability of a new product, technology, material or other innovation. In addition, even if we are able to successfully develop enhancements or new generations of our products, these enhancements or new generations of products may not produce sales in excess of the costs of development and they may be quickly rendered obsolete by changing customer preferences or the introduction by our competitors of products embodying new technologies or features.

***Our products are dependent on the availability of tissue from human donors, and any disruption in supply could adversely affect our business.***

The success of our human tissue products depends upon, among other factors, the availability of tissue from human donors. Any failure to obtain tissue from our sources will interfere with our ability to effectively meet demand for our products incorporating human tissue. The processing of human tissue into our products is very labor-intensive and it is therefore difficult to maintain a steady supply stream. The availability of donated tissue could also be adversely impacted by regulatory changes, public opinion of the donor process as well as our own reputation in the industry. The challenges we may face in obtaining adequate supplies of human tissue involve several risks, including limited control over availability, quality and delivery schedules. In addition, any interruption in the supply of any human tissue component could materially harm our ability to manufacture our products until a new source of supply, if any, could be found. We may be unable to find a sufficient alternative supply channel in a reasonable time period or on commercially reasonable terms, if at all, which would have a material adverse effect on our business, results of operations and financial condition.

***The products we manufacture and process are derived from human tissue and therefore have the potential for disease transmission.***

The utilization of human tissue creates the potential for transmission of communicable disease, including, but not limited to, human immunodeficiency virus (“HIV”), viral hepatitis, syphilis and other viral, fungal or bacterial pathogens. We are required to comply with federal and state regulations intended to prevent communicable disease transmission.

Although we maintain strict quality controls over the procurement and processing of our tissue, there is no assurance that these quality controls will be adequate. In addition, negative publicity concerning disease transmission from other companies' improperly processed donated tissue could have a negative impact on the demand for our products.

***We depend on key personnel.***

Our success will depend, in part, upon our ability to attract and retain skilled personnel, including sales, managerial and technical personnel. There can be no assurance that we will be able to find and attract additional qualified employees to support our expected growth or retain any such personnel. Our inability to hire and retain qualified personnel or the loss of services of our key personnel may have a material and adverse effect on our business and results of operations.

***A significant portion of our revenues and accounts receivable come from Government accounts.***

We have significant sales to the Government (whether we are selling our products directly to Government Accounts or through our current or another distributor). Any disruption of our products on the FSS or a change in the way the Government purchases products like ours or the price it is willing to pay for our products, could materially and adversely affect our business, results of operations and financial condition.

***In order to grow revenues from certain of our products, we must expand our relationships with distributors and independent sales representatives, whom we do not control.***

We derive significant revenues through our relationships with distributors and independent sales representatives, though, other than our distributor for Government accounts, no one distributor comprised over 5% of our revenues. If such

relationships were terminated for any reason, it could materially and adversely affect our ability to generate revenues and profits. Because the independent distributor often controls the customer relationships within its territory, there is a risk that if our relationship with the distributor ends, our relationship with the customer will be lost. Also, because we do not control a distributor's field sales agents, there is a risk we will be unable to ensure that our sales processes, compliance, and other priorities will be consistently communicated and executed by the distributor. If we fail to maintain relationships with our key distributors, or fail to ensure that our distributors adhere to our sales processes, compliance, and other priorities, this could have an adverse effect on our operations.

We intend to obtain the assistance of additional distributors and independent sales representatives to continue our sales growth with respect to certain of our products. Our success is partially dependent upon our ability to retain and motivate our distributors, independent sales agencies, and their representatives to sell our products in certain territories. They may not be successful in implementing our marketing plans. Some of our distributors and independent sales agencies do not sell our products exclusively and may offer similar products from other companies. Our distributors and independent sales agencies may terminate their contracts with us, may devote insufficient sales efforts to our products, or may focus their sales efforts on other products that produce greater commissions for them, which could have an adverse effect on our operations and operating results. We also may not be able to find additional distributors and independent sales representatives who will agree to market and/or distribute those products on commercially reasonable terms, if at all. If we are unable to establish new distribution and independent sales representative relationships or renew current distribution and sales agency agreements on commercially acceptable terms, our business, financial condition and results of operations could be materially and adversely affected.

***We continue to invest significant capital in expanding our internal sales force, and there can be no assurance that these efforts will continue to result in significant increases in sales.***

We are engaged in a major initiative to build and further expand our internal sales and marketing capabilities which has contributed to our increased sales. As a result, we continue to invest in a direct sales force for certain of our products to allow us to reach new customers. These expenses impact our operating results, and there can be no assurance that we will continue to be successful in significantly expanding the sales of our products.

***Our revenues depend on adequate reimbursement from public and private insurers and health systems.***

Our success depends on the extent to which reimbursement for the costs of our products and related treatments will be available from third party payers, such as public and private insurers and health systems. Government and other third-party payers attempt to contain healthcare costs by limiting both coverage and the level of reimbursement of new products. Therefore, significant uncertainty usually exists as to the reimbursement status of new healthcare products. A significant number of public and private insurers and health systems currently do not provide reimbursement for our products. If we are not successful in obtaining adequate reimbursement for our products from these third party payers, the market's acceptance of our products could be adversely affected. Inadequate reimbursement levels also likely would create downward price pressure on our products. Even if we do succeed in obtaining widespread reimbursement for our products, future changes in reimbursement policies could have a negative impact on our business, financial condition and results of operations.

***Disruption of our processing could adversely affect our business, financial condition and results of operations.***

Our results of operations are dependent upon the continued operation of our processing facilities. Risks that could impact our ability to use these facilities include the occurrence of natural and other disasters, and the need to comply with the requirements of directives from Government agencies, including the FDA. We have a secondary processing facility in Kennesaw, Georgia that also serves as a disaster recovery center. However, the unavailability of our manufacturing and processing facilities could have a material adverse effect on our business, financial condition, and results of operations during the period of such unavailability.

***To be commercially successful, we must convince physicians that our products are safe and effective alternatives to existing treatments and that our products should be used in their procedures.***

We believe physicians will only adopt our products if they determine, based on experience, clinical data and published peer reviewed journal articles, that the use of our products in a particular procedure is a favorable alternative to conventional methods. Physicians may be slow to change their medical treatment practices for the following reasons, among others:

- Their lack of experience with prior procedures in the field using our products;
- Lack of evidence supporting additional patient benefits and our products over conventional methods;

- Perceived liability risks generally associated with the use of new products and procedures;
- Limited availability of reimbursement from third party payers; and
- The time that must be dedicated to training.

In addition, we believe recommendations for and support of our products by influential physicians are essential for market acceptance and adoption. If we do not receive this support or if we are unable to demonstrate favorable long-term clinical data, physicians and hospitals may not use our products, which would significantly reduce our ability to achieve expected revenue and would prevent us from sustaining profitability.

In the course of conducting our business, we must adequately address quality issues that may arise with our products, as well as defects in third-party components included in our products. Although we have established internal procedures to minimize risks that may arise from quality issues, we may not be able to eliminate or mitigate occurrences of these issues and associated liabilities. If the quality of our products does not meet the expectations of physicians or patients, then our brand and reputation could suffer and our business could be adversely impacted.

***The formation of PODs could result in increased pricing pressure on our products or harm our ability to sell our products to physicians who own or are affiliated with those distributorships.***

Physician-Owned Distributorships ("PODs") are medical product distributors that are owned, directly or indirectly, by physicians. These physicians derive a proportion of their revenue from selling or arranging for the sale of medical products for use in procedures they perform on their own patients at hospitals that agree to purchase from or through the POD, or that otherwise furnish ordering physicians with income that is based directly or indirectly on those orders of medical products. The Office of Inspector General (OIG) of the Department of Health & Human Services has issued a Special Fraud Alert on PODs, indicating that they are inherently suspect under the anti-kickback statute.

We do not directly sell to or distribute any of our products through PODs. The number of PODs in the industry may continue to grow as economic pressures increase throughout the industry, as hospitals, insurers and physicians search for ways to reduce costs, and, in the case of the physicians, search for ways to increase their incomes. These companies and the physicians who own, or partially own, them have significant market knowledge and access to the physicians who use our products and the hospitals that purchase our products, and growth in this area may reduce our ability to compete effectively for business from physicians who own such distributorships.

***We will need to expand our organization, and managing growth may be more difficult than expected.***

Managing our growth may be more difficult than we expect. We anticipate that a period of significant expansion will be required to penetrate and service the market for our existing and anticipated future products and to continue to develop new products. This expansion will place a significant strain on management, operational and financial resources. To manage the expected growth of our operations and personnel, we must both modify our existing operational and financial systems, procedures and controls and implement new systems, procedures and controls. We must also expand our finance, administrative, and operations staff. Management may be unable to hire, train, retain, motivate and manage necessary personnel or to identify, manage and exploit existing and potential strategic relationships and market opportunities.

***We face the risk of product liability claims and may not be able to obtain or maintain adequate product liability insurance.***

Our business exposes us to the risk of product liability claims that are inherent in the manufacturing, processing and marketing of medical devices and human tissue products. We may be subject to such claims if our products cause, or appear to have caused, an injury. Claims may be made by patients, healthcare providers or others selling our products. Defending a lawsuit, regardless of merit, could be costly, divert management attention and result in adverse publicity, which could result in the withdrawal of, or reduced acceptance of, our products in the market.

Although we have product liability insurance that we believe is adequate, this insurance is subject to deductibles and coverage limitations and we may not be able to maintain this insurance. Also, it is possible that claims could exceed the limits of our coverage. If we are unable to maintain product liability insurance at an acceptable cost or on acceptable terms with adequate coverage or otherwise protect ourselves against potential product liability claims or we underestimate the amount of insurance we need, we could be exposed to significant liabilities, which may harm our business. A product liability claim or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could result in significant costs and significant harm to our business.

***We may implement a product recall or voluntary market withdrawal, which could significantly increase our costs, damage***

***our reputation and disrupt our business.***

The manufacturing, marketing and processing of our tissue products involves an inherent risk that our tissue products or processes do not meet applicable quality standards and requirements. In that event, we may voluntarily implement a recall or market withdrawal or may be required to do so by a regulatory authority. A recall or market withdrawal of one of our products would be costly and would divert management resources. A recall or withdrawal of one of our products, or a similar product processed by another entity, also could impair sales of our products as a result of confusion concerning the scope of the recall or withdrawal, or as a result of the damage to our reputation for quality and safety.

***Significant disruptions of information technology systems or breaches of information security could adversely affect our business.***

We rely to a large extent upon sophisticated information technology systems to operate our business. In the ordinary course of business, we collect, store and transmit large amounts of confidential information (including, but not limited to, personal information and intellectual property). We also have outsourced significant elements of our operations to third parties, including significant elements of our information technology infrastructure and, as a result, we are managing many independent vendor relationships with third parties who may or could have access to our confidential information. The size and complexity of our information technology and information security systems, and those of our third-party vendors with whom we contract (and the large amounts of confidential information that is present on them), make such systems potentially vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees or vendors, or from malicious attacks by third parties. Such attacks are of ever-increasing levels of sophistication and are made by groups and individuals with a wide range of motives (including, but not limited to, industrial espionage and market manipulation) and expertise. While we have invested significantly in the protection of data and information technology, there can be no assurance that our efforts will prevent service interruptions or security breaches. Although we have cyber-insurance coverage that may cover certain events described above, this insurance is subject to deductibles and coverage limitations and we may not be able to maintain this insurance. Also, it is possible that claims could exceed the limits of our coverage. Any interruption or breach in our systems could adversely affect our business operations and/or result in the loss of critical or sensitive confidential information or intellectual property, and could result in financial, legal, business and reputational harm to us or allow third parties to gain material, inside information that they use to trade in our securities.

***We may not be successful in commercializing our CollaFix Technology.***

We have invested substantial time and resources in developing various additional products using our CollaFix technology. Further commercialization of this technology will require additional development, clinical evaluation, regulatory clearance or approval, significant marketing efforts and substantial additional investment before they can provide us with any revenue. Despite our efforts, any such products may not become commercially successful products for a number of reasons, including:

- We may not be able to obtain regulatory clearance or approvals for such products, or the approved indication may be narrower than we seek;
- Such products may not prove to be safe and effective in preclinical or clinical trials;
- Physicians or hospitals may not receive any reimbursement from third party payers, or the level of reimbursement may be insufficient to support widespread adoption of such products;
- We may experience delays in our development programs;
- Any products that are approved may not be accepted in the marketplace by physicians or patients;
- We may not be able to manufacture any such products in commercial quantities or at an acceptable cost; and
- Rapid technological change may make such products obsolete.

***We may expand our business through acquisitions, licenses, investments, and other commercial arrangements in other companies or technologies, which contain significant risks.***

We periodically evaluate strategic opportunities to acquire companies, divisions, technologies, products, and rights through licenses, distribution agreements, investments, and outright acquisitions to grow our business. In connection with one or more of those transactions, we may:

- Issue additional equity securities that would dilute our stockholders' value;
- Use cash that we may need in the future to operate our business;
- Incur debt that could have terms unfavorable to us or that we might be unable to repay;
- Structure the transaction in a manner that has unfavorable tax consequences, such as a stock purchase that does not permit a step-up in the tax basis for the assets acquired;
- Be unable to realize the anticipated benefits, such as increased revenues, cost savings, or synergies from additional sales;
- Be unable to secure the services of key employees related to the acquisition; and
- Be unable to succeed in the marketplace with the acquisition.

Any of these items could materially, and adversely affect our revenues, financial condition, and profitability. Business acquisitions also involve the risk of unknown liabilities associated with the acquired business, which could be material. Incurring unknown liabilities or the failure to realize the anticipated benefits of an acquisition could materially, and adversely affect our business if we are unable to recover our initial investment, which could include the cost of acquiring licenses or distribution rights, acquiring products, purchasing initial inventory, or investments in early stage companies. Inability to recover our investment, or any write off of such investment, associated goodwill, or assets, could have a material and adverse effect on our business, results of operations and financial condition.

***Our international expansion and operations in foreign markets expose us to risks associated with international sales and operations.***

We are actively seeking to expand into foreign markets. Managing a global organization is difficult, time consuming, and expensive. Conducting international operations subjects us to risks that could be different than those faced by us in the United States. The sale and shipment of our products across international borders, as well as the purchase of components and products from international sources, subject us to extensive U.S. and foreign governmental trade, import and export and customs regulations and laws, including but not limited to, the Export Administration Regulations and trade sanctions against embargoed countries, which are administered by the Office of Foreign Assets Control within the Department of the Treasury, as well as the laws and regulations administered by the Department of Commerce. These regulations limit our ability to market, sell, distribute or otherwise transfer our products or technology to prohibited countries or persons.

Compliance with these regulations and law is costly, and failure to comply with applicable legal and regulatory obligations could adversely affect us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments and restrictions on certain business activities. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of our distribution and sales activities.

Other risks inherent in operating in foreign jurisdictions include:

- lack of familiarity with and unexpected changes in foreign regulatory requirements;
- lack of stringent protection of intellectual property;
- obstacles to obtaining domestic and foreign export, import and other governmental approvals, permits and licenses and compliance with foreign laws;
- potentially adverse tax consequences and the complexities of foreign value-added tax systems;
- adverse changes in tariffs and trade restrictions;
- differing multiple payer reimbursement regimes, government payers or patient self-pay system;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations;

- fluctuations in currency exchange rates;
- the burdens of complying with a wide variety of foreign laws and legal standards;
- availability of government subsidies or other incentives that benefit competitors in their local markets that are not available to us;
- increased financial reporting burdens and complexities; and
- political, social, and economic instability abroad.

These risks may limit or disrupt our expansion, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization or expropriation without fair compensation. Operating in international markets also requires significant management attention and financial resources.

***New lines of business or new products and services may subject us to additional risks.***

From time to time, we may implement or may acquire new lines of business or offer new products and services within existing lines of business. There are risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed or are evolving. In developing and marketing new lines of business and new products and services, we may invest significant time and resources. External factors, such as regulatory compliance obligations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition.

***Our future capital needs are uncertain and we may need to raise funds in the future, and such funds may not be available on acceptable terms or at all.***

Continued expansion of our business will be expensive and we may seek funds from public and private stock offerings, borrowings under our existing or future credit facilities or other sources. Our capital requirements will depend on many factors, including:

- the revenues generated by sales of our products;
- the costs associated with expanding our sales and marketing efforts;
- the expenses we incur in manufacturing and selling our products;
- the costs of developing and commercializing new products or technologies;
- the cost of obtaining and maintaining regulatory approval or clearance of certain products and products in development;
- the number and timing of acquisitions and other strategic transactions;
- the costs associated with our planned international expansion;
- the costs associated with capital expenditures; and
- unanticipated general and administrative expenses.

As a result of these factors, we may seek to raise capital, and such capital may not be available on favorable terms, or at all. Furthermore, if we issue equity or debt securities to raise capital, our existing shareholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise capital through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to our products, potential products or proprietary technologies, or grant licenses on terms that are not favorable to us. If we cannot raise capital on acceptable terms, we may not be able to develop or enhance our products, execute our business plan, take advantage of future opportunities, or respond to competitive pressure, changes in our supplier relationships,



or unanticipated customer requirements. Any of these events could adversely affect our ability to achieve our development and commercialization goals, which could have a material adverse effect on our business, results of operations and financial condition.

***We have identified a material weakness in our internal control over financial reporting which, if not remediated, could adversely affect our reputation, business or stock price.***

In reviewing the Company's tax accounting in preparation for filing this Form 10-K, our management identified a deficiency in our internal control over financial reporting. Our management has concluded that this deficiency constitutes a material weakness in our internal control over financial reporting related to our accounting for income taxes. As described under "Item 9A - Controls and Procedures," as a result, our management has concluded that internal control over financial reporting was not effective as of December 31, 2016. This was identified during the audit process prior to preparation of the Company's financial statements and, therefore did not result in a material misstatement of the Company's annual financial statements for the year ended December 31, 2016 or any of our previously issued annual or interim consolidated financial statements.

Although we have developed and are implementing a plan to remediate this material weakness, we cannot assure you that this will occur within the contemplated timeframe. Moreover, we cannot assure you that we will not identify additional material weaknesses in our internal control over financial reporting in the future. If we are unable to remediate the material weakness, our ability to record, process and report financial information accurately, and to prepare financial statements within the time periods specified by the rules and forms of the Securities and Exchange Commission, could be adversely affected. The occurrence of or failure to remediate the material weakness may adversely affect our reputation and business and the market price of our common stock and any other securities we may issue.

### **Risks Related to Our Intellectual Property**

***Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain and may be inadequate, which could have a material and adverse effect on us.***

Our success depends significantly on our ability to protect our proprietary rights to the technologies used in our products. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology, including our licensed technology. These legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. In addition, our pending patent applications include claims to material aspects of our products and procedures that are not currently protected by issued patents. The patent application process can be time consuming and expensive. We cannot ensure that any of our pending patent applications will result in issued patents. Competitors may be able to design around our patents or develop products that provide outcomes that are comparable or even superior to ours. Although we have taken steps to protect our intellectual property and proprietary technology, including entering into confidentiality agreements and intellectual property assignment agreements with some of our officers, employees, consultants and advisors, such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements.

The failure to obtain and maintain patents and/or protect our intellectual property rights could have a material and adverse effect on our business, results of operations, and financial condition. Whether a patent is valid is a complex matter of science and law, and therefore we cannot be certain that, if challenged, our patents would be upheld. If one or more of those patents are invalidated, that could reduce or eliminate any competitive advantage we might otherwise have had.

In the event a competitor infringes upon our licensed or pending patent or other intellectual property rights, enforcing those rights may be costly, uncertain, difficult and time consuming. Even if successful, litigation to enforce or defend our intellectual property rights could be expensive and time consuming and could divert our management's attention. Further, bringing litigation to enforce our patents subjects us to the potential for counterclaims. Other companies or entities also have commenced, and may again commence, actions seeking to establish the invalidity of our patents. For example, the defendants in certain of our ongoing patent infringement suits have filed petitions for inter-partes review of certain of our patents with the United States Patent and Trademark Office (USPTO). We intend to defend these actions vigorously, but there is no guarantee of success, and such effort takes financial and time resources from the Company. In the event that one or more of our patents are challenged, a court or the USPTO may invalidate the patent(s) or determine that the patent(s) is not enforceable, which could harm our competitive position. If the USPTO ultimately cancels or narrows the claim in any of our patents through these proceedings, it could prevent or hinder us from being able to enforce them against competitors. Such adverse decisions could negatively impact our future, expected revenue. See Item 3, Legal Proceedings for information regarding our ongoing patent

infringement lawsuits and related inter-partes review proceedings.

In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. This could make it difficult for us to stop infringement of our foreign patents, if obtained, or the misappropriation of our other intellectual property rights. For example, some foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, some countries limit the enforceability of patents against third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit. Patent protection must ultimately be sought on a country-by-country basis, which is an expensive and time-consuming process with uncertain outcomes. Accordingly, we may choose not to seek patent protection in certain countries, and we will not have the benefit of patent protection in such countries. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate.

***The prosecution and enforcement of patents licensed to us by third parties are not within our control, and without these technologies, our products may not be successful and our business would be harmed if the patents were infringed or misappropriated.***

We have obtained licenses from third parties for patents and patent application rights related to our CollaFix technologies, allowing us to use intellectual property rights owned by or licensed to these third parties. We do not control the maintenance, prosecution, enforcement or strategy for many of these patents or patent application rights and as such are dependent in part on the owners of the intellectual property rights to maintain their viability. Their failure to do so could significantly impair our ability to exploit those technologies.

***We may become subject to claims of infringement of the intellectual property rights of others, which could prohibit us from developing our products, require us to obtain licenses from third parties or to develop non-infringing alternatives, and subject us to substantial monetary damages.***

Third parties could assert that our products infringe their patents or other intellectual property rights. Whether a product infringes a patent or other intellectual property involves complex legal and factual issues, the determination of which is often uncertain. Therefore, we cannot be certain that we have not infringed the intellectual property rights of others. Because patent applications may take years to issue, there also may be applications now pending of which we are unaware that may later result in issued patents that our products or processes infringe. There also may be existing patents or pending patent applications of which we are unaware that our products or processes may inadvertently infringe.

Any infringement claim could cause us to incur significant costs, place significant strain on our financial resources, divert management's attention from our business and harm our reputation. If the relevant patents in such claim were upheld as valid and enforceable and we were found to infringe, we could be prohibited from selling any product that is found to infringe unless we could obtain licenses to use the technology covered by the patent or other intellectual property or are able to design around the patent or other intellectual property. We may be unable to obtain such a license on terms acceptable to us, if at all, and we may not be able to redesign our products to avoid infringement. A court could also order us to pay compensatory damages for such infringement, plus prejudgment interest and could, in addition, treble the compensatory damages and award attorney fees. These damages could be substantial and could harm our reputation, business, financial condition and operating results. A court also could enter orders that temporarily, preliminarily or permanently enjoin us and our customers from making, using, or selling products, and could enter an order mandating that we undertake certain remedial activities. Depending on the nature of the relief ordered by the court, we could become liable for additional damages to third parties.

***We may be subject to damages resulting from claims that we, our employees, or our independent contractors have wrongfully used or disclosed alleged trade secrets, proprietary or confidential information of our competitors or are in breach of non-competition or non-solicitation agreements with our competitors.***

Some of our employees were previously employed at other medical device, pharmaceutical or tissue companies. We may also hire additional employees who are currently employed at other medical device, pharmaceutical or tissue companies, including our competitors. Additionally, consultants or other independent agents with which we may contract may be or have been in a contractual arrangement with one or more of our competitors. Although no claims are currently pending, we may be subject to claims that we, our employees, or our independent contractors have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of these former employers or competitors. In addition, we have been and may in the future be subject to claims that we caused an employee to breach the terms of his or her non-competition or non-solicitation agreement. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these

claims, litigation could result in substantial costs and be a distraction to management. If we fail to defend such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. There can be no assurance that this type of litigation will not continue, and any future litigation or the threat thereof may adversely affect our ability to hire additional direct sales representatives. A loss of key personnel or their work product could hamper or prevent our ability to market existing or new products, which could severely harm our business.

***Our License Agreement for our CollaFix technology could be terminated.***

Under our license agreement with Shriners' Hospitals for Children and University of South Florida Research Foundation dated January 29, 2007, it is possible for the licensor to terminate the agreement if we breach the license agreement and all of our cure rights are exhausted. If our license agreement were to be terminated, our investment in the CollaFix technology would be lost.

**Risks Related to Regulatory Approval of Our Products and Other Government Regulations**

***To the extent our products do not qualify for regulation as human cells, tissues and cellular and tissue-based products under Section 361 of the Public Health Service Act, this could result in removal of the applicable products from the market, would make the introduction of new tissue products more expensive and significantly delay the expansion of our tissue product offerings and subject us to additional post-market regulatory requirements.***

The products we manufacture and process are derived from human tissue. The FDA has specific regulations governing human cells, tissues and cellular and tissue-based products, or HCT/Ps. An HCT/P is a product containing or consisting of human cells or tissue intended for transplantation into a human patient. HCT/Ps that meet the criteria for regulation solely under Section 361 of the Public Health Service Act (so-called "361 HCT/Ps") are not subject to any premarket clearance or approval requirements and are subject to less stringent post-market regulatory requirements.

If a product is deemed not to be a 361 HCT/P, FDA regulations will require premarket clearance or approval requirements that will involve significant time and cost investments by the Company. Further, there can be no assurance that the FDA will not, at some future point, change its position on current or future products' 361 HCT/P status, and any regulatory reclassification could have adverse consequences for us and make it more difficult or expensive for us to conduct our business by requiring premarket clearance or approval and compliance with additional post-market regulatory requirements with respect to those products. Moreover, increased regulatory scrutiny within the industry in which we operate could lead to increased regulation of HCT/Ps, including 361 HCT/Ps. We also cannot assure you that the FDA will not impose more stringent definitions with respect to products that qualify as 361 HCT/Ps.

See "Government Regulation" in Item 1 for a discussion of 361 HCT/Ps and the FDA's position on our products. If the FDA does allow the Company to continue to market a micronized form of its sheet allografts without a biologics license either prior to or after finalization of the draft guidance documents, it may impose conditions, such as labeling restrictions and compliance with cGMP. Although the Company is preparing for these requirements in connection with its pursuit of a BLA for certain of its micronized products, earlier compliance with these conditions would require significant additional time and cost investments by the Company. It is also possible that the FDA will not allow the Company to market any form of a micronized product without a biologics license even prior to finalization of the draft guidance documents and could even require the Company to recall its micronized products. Revenues from micronized products comprised approximately 10% of the Company's revenues in 2016.

***Obtaining and maintaining the necessary regulatory approvals for certain of our products will be expensive and time-consuming and may impede our ability to fully exploit our technologies.***

The process of obtaining regulatory clearances or approvals to market a biologic or medical device from the FDA or similar regulatory authorities outside of the United States is costly and time consuming, and there can be no assurance that such clearances or approvals will be granted on a timely basis, or at all. As discussed above, we intend to pursue approval of a Biologics License Application (BLA) for certain of our micronized products. Additionally, the FDA may take the position that some of the other products that we currently market require a BLA as well. Some of the future products and enhancements to our current products that we expect to develop and market may require marketing clearance or approval from the FDA. There can be no assurance, however, that clearance or approval will be granted with respect to any of our products or enhancements or that FDA review will not involve delays that would adversely affect our ability to market such products or enhancements.

The process of obtaining an approved BLA requires the expenditure of substantial time, effort and financial resources and may take years to complete. The fee for filing a BLA and the annual user fees payable with respect to any establishment that manufactures biologics and with respect to each approved product are substantial. Additionally, there are significant costs

associated with clinical trials that cannot be estimated until the IND is approved. Moreover, data obtained from clinical activities are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The FDA may not grant approval on a timely basis, or at all. Additionally, the FDA may limit the indications for use or place other conditions on any approvals that could restrict the commercial application of the products. After approval, some types of changes to the approved product, such as adding new indications, manufacturing changes and additional labeling claims, are subject to further testing requirements and FDA review and approval.

Like the process of obtaining an approved BLA, the process of obtaining a PMA requires the expenditure of substantial time, effort and financial resources and may take years to complete. The FDA may not grant approval on a timely basis, or at all. Additionally, the FDA may limit the indications for use or place other conditions on any approvals that could restrict the commercial application of the products. After approval, some types of changes to the approved product, such as adding new indications, manufacturing changes and additional labeling claims, are subject to further testing requirements and FDA review and approval.

***Our business is subject to continuing regulatory compliance by the FDA and other authorities, which is costly and our failure to comply could result in negative effects on our business.***

As discussed above, the FDA has specific regulations governing our tissue-based products, or HCT/Ps. The FDA has broad post-market and regulatory and enforcement powers. The FDA's regulation of HCT/Ps includes requirements for registration and listing of products, donor screening and testing, processing and distribution ("Current Good Tissue Practices"), labeling, record keeping and adverse-reaction reporting, and inspection and enforcement.

Biologics and medical devices are subject to even more stringent regulation by the FDA. Even if pre-market clearance or approval is obtained, the approval or clearance may place substantial restrictions on the indications for which the product may be marketed or to whom it may be marketed, may require warnings to accompany the product or impose additional restrictions on the sale and/or use of the product. In addition, regulatory approval is subject to continuing compliance with regulatory standards, including the FDA's quality system regulations.

If we fail to comply with the FDA regulations regarding our tissue products or medical devices, the FDA could take enforcement action, including, without limitation, any of the following sanctions and the manufacture of our products or processing of our tissue could be delayed or terminated:

- Untitled letters, warning letters, fines, injunctions, and civil penalties;
- Recall or seizure of our products;
- Operating restrictions, partial suspension or total shutdown of production;
- Refusing our requests for clearance or approval of new products;
- Withdrawing or suspending current applications for approval or approvals already granted;
- Refusal to grant export approval for our products; and
- Criminal prosecution.

It is likely that the FDA's regulation of HCT/Ps will continue to evolve in the future. Complying with any such new regulatory requirements may entail significant time delays and expense, which could have a material adverse effect on our business.

The American Association of Tissue Banks ("AATB") has issued operating standards for tissue banking. Compliance with these standards is a requirement in order to become an accredited tissue bank. In addition, some states have their own tissue banking regulations.

In addition, procurement of certain human organs and tissue for transplantation is subject to the restrictions of the National Organ Transplant Act ("NOTA"), which prohibits the transfer of certain human organs, including skin and related tissue for valuable consideration, but permits the reasonable payment associated with the removal, transportation, implantation, processing, preservation, quality control and storage of human tissue and skin. We reimburse tissue banks, hospitals and physicians for their services associated with the recovery, storage and transportation of donated human tissue. Although we have independent third party appraisals that confirm that reasonableness of the service fees we pay, if we were to be found to have violated NOTA's prohibition on the sale or transfer of human tissue for valuable consideration, we would potentially be

subject to criminal enforcement sanctions, which could materially and adversely affect our results of operations.

Finally, as discussed above, we and other manufacturers of skin substitutes are required to provide ASP information to CMS on a quarterly basis. The Medicare payment rates are updated quarterly based on this ASP information. If a manufacturer is found to have made a misrepresentation in the reporting of ASP, such manufacturer is subject to civil monetary penalties of up to \$10,000 for each misrepresentation for each day in which the misrepresentation was applied.

***We and our sales representatives, whether employees or independent contractors, must comply with various federal and state anti-kickback, self-referral, false claims and similar laws, any breach of which could cause a material adverse effect on our business, financial condition and results of operations.***

Our relationships with physicians, hospitals and other healthcare providers are subject to scrutiny under various federal anti-kickback, self-referral, false claims and similar laws, often referred to collectively as healthcare fraud and abuse laws. Healthcare fraud and abuse laws are complex, and even minor, inadvertent violations can give rise to claims that the relevant law has been violated. Possible sanctions for violation of these fraud and abuse laws include monetary fines, civil and criminal penalties, exclusion from federal and state healthcare programs, including Medicare, Medicaid, Veterans Administration health programs, workers' compensation programs and TRICARE (the healthcare system administered by or on behalf of the U.S. Department of Defense for uniformed services beneficiaries, including active duty and their dependents, retirees and their dependents), and forfeiture of amounts collected in violation of such prohibitions. Certain states have similar fraud and abuse laws, imposing substantial penalties for violations. Any Government investigation or a finding of a violation of these laws would likely result in a material adverse effect on the market price of our common stock, as well as our business, financial condition and results of operations.

Anti-kickback laws and regulations prohibit any knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for the referral of an individual or the ordering or recommending of the use of a product or service for which payment may be made by Medicare, Medicaid or other Government-sponsored healthcare programs. We have entered into consulting agreements, speaker agreements, research agreements and product development agreements with physicians, including some who may order our products or make decisions to use them. In addition, some of these physicians own our stock, which they purchased in arm's length transactions on terms identical to those offered to non-physicians, or received stock awards from us as consideration for services performed by them. While these transactions were structured with the intention of complying with all applicable laws, including state anti-referral laws and other applicable anti-kickback laws, it is possible that regulatory or enforcement agencies or courts may in the future view these transactions as prohibited arrangements that must be restructured or for which we would be subject to other significant civil or criminal penalties. As discussed above, we have incorporated the AdvaMed code principles into our relationships with healthcare professionals under our consulting agreements, and our policies regarding payment of travel and lodging expenses, research and educational grant procedures and sponsorship of third-party conferences. In addition, we have conducted training sessions on these principles. However, there can be no assurance that regulatory or enforcement authorities will view these arrangements as being in compliance with applicable laws or that one or more of our employees or agents will not disregard the rules we have established. Because our strategy relies on the involvement of physicians who consult with us on the design of our products, perform clinical research on our behalf or educate the market about the efficacy and uses of our products, we could be materially impacted if regulatory or enforcement agencies or courts interpret our financial relationships with physicians who refer or order our products to be in violation of applicable laws and determine that we would be unable to achieve compliance with such applicable laws. This could harm our reputation and the reputations of the physicians we engage to provide services on our behalf. In addition, the cost of noncompliance with these laws could be substantial since we could be subject to monetary fines and civil or criminal penalties, and we could also be excluded from federally-funded healthcare programs, including Medicare and Medicaid, for non-compliance.

The Federal False Claims Act ("FCA") imposes civil liability on any person or entity that submits, or causes the submission of, a false or fraudulent claim to the U.S. Government. Damages under the FCA can be significant and consist of the imposition of fines and penalties. The FCA also allows a private individual or entity with knowledge of past or present fraud against the Federal Government to sue on behalf of the Government to recover the civil penalties and treble damages. The U.S. Department of Justice ("DOJ") on behalf of the Government has previously alleged that the marketing and promotional practices of pharmaceutical and medical device manufacturers, including the off-label promotion of products or the payment of prohibited kickbacks to doctors, violated the FCA, resulting in the submission of improper claims to federal and state healthcare entitlement programs such as Medicaid. In certain cases, manufacturers have entered into criminal and civil settlements with the federal government under which they entered into plea agreements, paid substantial monetary amounts and entered into corporate integrity agreements that require, among other things, substantial reporting and remedial actions going forward.

In addition, there has been a recent trend of increased federal and state regulation of payments made to physicians for marketing. Some states, such as California, Massachusetts and Vermont, mandate implementation of commercial compliance programs, along with the tracking and reporting of gifts, compensation and other remuneration to physicians. The shifting commercial compliance environment and the need to build and maintain robust and expandable systems to comply with different compliance and/or reporting requirements in multiple jurisdictions increase the possibility that a healthcare company may run afoul of one or more of the requirements.

The scope and enforcement of all of these laws is uncertain and subject to rapid change, especially in light of the lack of applicable precedent and regulations. There can be no assurance that federal or state regulatory or enforcement authorities will not investigate or challenge our current or future activities under these laws. Any investigation or challenge could have a material adverse effect on our business, financial condition and results of operations. Any state or federal regulatory or enforcement review of us, regardless of the outcome, would be costly and time consuming. Additionally, we cannot predict the impact of any changes in these laws, whether these changes are retroactive or will have effect on a going-forward basis only.

***We face significant uncertainty in the industry due to Government healthcare reform.***

There have been and continue to be proposals by the Federal Government, State Governments, regulators and third party payers to control healthcare costs, and generally, to reform the healthcare system in the United States. There are many programs and requirements for which the details have not yet been fully established or the consequences are not fully understood. These proposals may affect aspects of our business. We also cannot predict what further reform proposals, if any, will be adopted, when they will be adopted, or what impact they may have on us.

***We may fail to obtain or maintain foreign regulatory approvals to market our products in other countries.***

We currently market our products internationally and intend to expand our international marketing. International jurisdictions require separate regulatory approvals and compliance with numerous and varying regulatory requirements. The approval procedures vary among countries and may involve requirements for additional testing. Certain of our products require clearance or approval by the FDA. However, such clearance or approval does not ensure approval or certification by regulatory authorities in other countries or jurisdictions, and approval or certification by one foreign regulatory authority does not ensure approval or certification by regulatory authorities in other foreign countries or by the FDA. The foreign regulatory approval or certification process may include all of the risks associated with obtaining FDA clearance or approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. We may not be able to file for regulatory approvals or certifications and may not receive necessary approvals to commercialize our products in any market. If we fail to receive necessary approvals or certifications to commercialize our products in foreign jurisdictions on a timely basis, or at all, our business, results of operations and financial condition could be adversely affected.

**Risks Related to the Securities Markets and Ownership of Our Common Stock**

***The price of our common stock has been, and will likely continue to be, volatile.***

The market price of our common stock, like that of the securities of many other companies that are in, or are just emerging from, the development stage, has fluctuated over a wide range and it is likely that the price of our common stock will fluctuate in the future. The market price of our common stock could be impacted by a variety of factors, including:

- Fluctuations in stock market prices and trading volumes of similar companies or of the markets generally;
- Our ability to successfully launch, market and earn significant revenue from our products;
- Our ability to obtain additional financing to support our continuing operations;
- Disclosure of the details and results of regulatory applications and proceedings;
- Changes in Government regulations or our failure to comply with any such regulations;
- Additions or departures of key personnel;
- Our investments in research and development or other corporate resources;
- Announcements of technological innovations or new commercial products by us or our competitors;
- Developments in the patents or other proprietary rights owned or licensed by us or our competitors;

- The timing of new product introductions;
- Actual or anticipated fluctuations in our operating results, including any restatements of previously reported results;
- Our ability to effectively and consistently manufacture our products and avoid costs associated with the recall of defective or potentially defective products;
- Our ability and the ability of our distribution partners to market and sell our products;
- Changes in reimbursement for our products or the price for our products to our customers;
- Removal of our products from the Federal Supply Schedule, or changes in how Government accounts purchase products such as ours or in the price for our products to Government accounts;
- Material amounts of short-selling of our common stock; and
- The other risks detailed in this Item 1A.

Further, due to the relatively fixed nature of most of our costs, which primarily include personnel costs as well as facilities costs, any unanticipated shortfall in revenue in any fiscal quarter would have an adverse effect on our results of operations in that quarter. These fluctuations could cause the trading price of our stock to be negatively affected. Our quarterly operating results have varied substantially in the past and may vary substantially in the future. In addition, the stock market and certain of the indices on which we are included has been very volatile in the recent past. This volatility is often not related to the operating performance of companies listed thereon and will probably continue in the foreseeable future.

***Securities analysts may elect not to report on our common stock or may issue negative reports that adversely affect the stock price.***

At this time, six securities analysts provide research coverage of our common stock. However, there is no assurance that these analysts will continue to report on our common stock or that additional analysts will initiate reporting on our common stock. Rules mandated by the Sarbanes-Oxley Act and a global settlement reached in 2003 among the SEC, other regulatory agencies, and a number of investment banks led to a number of fundamental changes in how analysts are reviewed and compensated. In particular, many investment banking firms are required to contract with independent financial analysts for their stock research. If securities analysts discontinue covering our common stock, the lack of research coverage may adversely affect its actual and potential market price. The trading market for our common stock may be affected in part by the research and reports that industry or financial analysts publish about our business. If one or more analysts elect to cover us and then downgrade the stock, the stock price would likely decline rapidly. If one or more of these analysts cease coverage of us, we could lose visibility in the market, which in turn could cause our stock price to decline. This could have a negative effect on the market price of our shares.

***Our charges to earnings resulting from acquisition, restructuring and integration costs may materially adversely affect the market value of our common stock.***

We account for the completion of our acquisitions using the purchase method of accounting. We allocate the total estimated purchase prices to net tangible assets, amortizable intangible assets and indefinite-lived intangible assets, and based on their fair values as of the date of completion of the acquisitions, record the excess of the purchase price over those fair values as goodwill. Our financial results, including earnings per share, could be adversely affected by a number of financial adjustments required in purchase accounting including the following:

- We will incur additional amortization expense over the estimated useful lives of certain of the intangible assets acquired in connection with acquisitions during such estimated useful lives.
- We will incur additional depreciation expense as a result of recording purchased tangible assets.
- To the extent the value of goodwill or intangible assets becomes impaired, we may be required to incur material charges relating to the impairment of those assets.
- Cost of sales may increase temporarily following an acquisition as a result of acquired inventory being recorded at its fair market value.

- Earnings may be affected by changes in estimates of future contingent consideration to be paid when an earn-out is part of the consideration.
- Earnings may be affected by transaction and implementation costs, which are expensed immediately.

***We do not intend to pay cash dividends.***

We have never declared or paid cash dividends on our capital stock. We currently expect to use available funds and any future earnings in the development, operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of our existing credit facility restrict us from paying dividends. As a result, capital appreciation, if any, of our common stock will be an investor's only source of potential gain from our common stock for the foreseeable future.

***We are currently, and may in the future be, subject to other claims and lawsuits that could cause us to incur significant legal expenses and result in harm to our business.***

We, as well as certain of our officers and sales representatives, are subject to claims or lawsuits from time to time. Regardless of the outcome, these lawsuits may result in significant legal fees and expenses and could divert management's time and other resources. In addition, the volatility in our stock price may make us more vulnerable to future class action litigation.

The Audit Committee of our Board of Directors engaged outside counsel to conduct an investigation that generally included a review of whether or not we have properly recognized revenue arising out of claims of former employees with whom we are currently in litigation. See Item 3 - Legal Proceedings for a discussion of the litigation. To date, we have incurred significant expense related to legal, accounting, and other professional services in connection with the investigation and related matters, and may continue to incur significant additional expenses with regard to these matters. The expenses incurred, and expected to be incurred, on the investigation, and the diversion of the attention of the management team that has occurred, has adversely affected, and could continue to adversely affect, our business, financial condition and results of operations or cash flows.

As a result of the matters reported above, we are exposed to greater risks associated with litigation, regulatory proceedings and government enforcement actions. Any future such investigations or additional lawsuits may adversely affect our business, financial condition, results of operation and cash flows. Any adverse judgment in or settlement of any pending or any future litigation could require payments that exceed the limits of our available directors' and officers' liability insurance, which could have a material adverse effect on our operating results or financial condition.

***Provisions of Florida law and anti-takeover provisions in our organizational documents may discourage or prevent a change of control, even if an acquisition would be beneficial to shareholders, which could affect our share price adversely and prevent attempts by shareholders to remove current management.***

We are subject to the Florida affiliated transactions statute, which generally requires approval by the disinterested directors or supermajority approval by shareholders for "affiliated transactions" between a corporation and an "interested stockholder." Additionally our organizational documents contain provisions:

- Authorizing the issuance of preferred stock that can be created and issued by the Board of Directors without prior common stock shareholder approval, with rights senior to those of the common stock;
- Restricting persons who may call shareholder meetings;
- Electing directors on a staggered basis; and
- Allowing the Board to fill vacancies and to fix the number of directors.

These provisions of Florida law and our articles of incorporation and bylaws could negatively affect our share price, prevent attempts by shareholders to remove current management, prohibit or delay mergers or other takeovers or changes of control of the Company and discourage attempts by other companies to acquire us, even if such a transaction would be beneficial to our shareholders.

**Item 2. Properties**

Our corporate headquarters are located in Marietta, Georgia, where we lease approximately 80,000 square feet of office, laboratory, tissue processing and warehouse space. We also lease (a) approximately 21,000 square feet for a facility in Kennesaw, Georgia, which primarily consists of laboratory, tissue processing and warehouse space; and (b) approximately 26,000 square feet of additional office space in Marietta, Georgia. In addition, Stability leases approximately 3,000 square feet for its corporate offices in Nashville, Tennessee and approximately 15,000 square feet in San Antonio, Texas which consists of its tissue processing center.



### **Item 3. Legal Proceedings**

#### ***Former Employee Litigation***

On December 13, 2016, the Company filed lawsuits against former employees Jess Kruchoski (in the lawsuit styled *MiMedx Group, Inc. v. Academy Medical, LLC, et. al.* in the County Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida (the "Florida Action")) and Luke Tornquist (in the lawsuit styled *MiMedx Group, Inc., v. Luke Tornquist* in the Superior Court for Cobb County, Georgia, which was removed to the United States District Court for the Northern District of Georgia (the "Georgia Action")). Both the Florida and Georgia Actions assert claims against Messrs. Kruchoski and Tornquist that each of them violated their restrictive covenants entered into with the Company, that each of them misappropriated trade secrets of the Company, that each of them tortiously interfered with contracts between the Company and its customers and employees, and that each of them breached his duty of loyalty owed to the Company, among other claims.

On December 15, 2016, Messrs. Kruchoski and Tornquist filed a lawsuit in the United States District Court of Minnesota (the "Minnesota Action") against the Company and the Company's Chairman and Chief Executive Officer, Parker Petit. The plaintiffs in this lawsuit each claimed that their employment with the Company was terminated in retaliation for their complaints about the Company's alleged business practices in violation of the Dodd-Frank Act, 15 U.S.C. § 78u-6(h); and was an unlawful discharge in violation of Minnesota Statutes Section 181.931 subdivision 1. Mr. Kruchoski also claimed that the termination of his employment with the Company constituted marital status discrimination and familial status discrimination in violation of the Minnesota Human Rights Act. Messrs. Kruchoski and Tornquist also claimed that Mr. Petit tortiously interfered with their employment relationships with the Company.

On January 26, 2017, the Company and Mr. Petit filed motions to dismiss the Minnesota Action. In response, Messrs. Kruchoski and Tornquist voluntarily dismissed the Minnesota Action without prejudice on February 7, 2017. On February 7, 2017, Mr. Tornquist filed his Answer and Counterclaims in the Georgia Action wherein he asserted claims similar to those he had asserted in the Minnesota Action, with the exception that he did not include a claim of tortious interference against Mr. Petit. On February 15, 2017, Mr. Kruchoski filed a new lawsuit in Georgia against MiMedx and Mr. Petit, making many of the same allegations in that suit as were made in the Minnesota suit, with the addition of claims against the Company and Mr. Petit for defamation.

The Company intends to vigorously pursue its claims asserted in the Florida and Georgia Actions and also to vigorously defend against the lawsuits and counterclaims asserted against them.

#### ***Patent Litigation***

MiMedx continues to diligently enforce its intellectual property against several entities. Currently, there are four actions pending, as described below:

##### The Liventa Action

On April 22, 2014, the Company filed a patent infringement lawsuit in the United States District Court for the Northern District of Georgia against Liventa Bioscience, Inc. ("Liventa"), Medline Industries, Inc. ("Medline") and Musculoskeletal Transplant Foundation, Inc. ("MTF") for permanent injunctive relief and unspecified damages (the "Liventa Action"). In addition to the allegations of infringement of MiMedx's patents, the lawsuit asserts that Liventa and Medline knowingly and willfully made false and misleading representations about their respective products to providers, patients, and in some cases, prospective investors. Though the terms of the agreement are confidential, the parties have reached a settlement of the false advertising claims for an undisclosed sum. The patent infringement claims are still pending as described below.

MiMedx asserts that Liventa (formerly known as AFCCell Medical, Inc.), Medline and MTF infringed and continue to infringe certain of the Company's patents relating to the MiMedx dehydrated human amnion/chorion membrane ("dHACM") allografts. MTF is the tissue processor while Liventa and Medline are the distributors of the allegedly infringing products. On May 30, 2014, defendants filed answers to the Complaint, denying the allegations in the Complaint. They also raised affirmative defenses of non-infringement, invalidity, laches and estoppel. MTF and Medline also filed counterclaims seeking declaratory judgments of non-infringement and invalidity. Defendants filed parallel Inter Partes Review ("IPR") proceedings which are discussed below. We expect the case to go to trial in 2017.

##### The Bone Bank Action

On May 16, 2014, the Company also filed a patent infringement lawsuit against Transplant Technology, Inc. d/b/a Bone Bank Allografts ("Bone Bank") and Texas Human Biologics, Ltd. ("Biologics") for permanent injunctive relief and unspecified damages (the "Bone Bank Action"). The Bone Bank Action was filed in the United States District Court for the Western District of Texas. This lawsuit similarly asserts that Bone Bank and Biologics infringed certain of the Company's patents through the manufacturing and sale of their placental-derived tissue graft products. On July 10, 2014, Defendants filed an answer to the Complaint, denying the allegations in the Complaint. They also raised affirmative defenses of non-infringement and invalidity and filed counterclaims seeking declaratory judgments of non-infringement and invalidity. Defendants also filed parallel IPR proceedings which are further discussed below. Discovery is closed and we expect the case to go to trial in 2017.

#### The NuTech Action

On March 2, 2015, the Company filed a patent infringement lawsuit against NuTech Medical, Inc. ("NuTech") and DCI Donor Services, Inc. ("DCI") for permanent injunctive relief and unspecified damages. This lawsuit was filed in the United States District Court for the Northern District of Alabama. The lawsuit alleges that NuTech and DCI have infringed and continue to infringe the Company's patents through the manufacture, use, sale, and/or offering of their tissue graft product. The lawsuit also asserts that NuTech knowingly and willfully made false and misleading representations about its products to customers and/or prospective customers. The case is currently in the discovery phase.

#### The Vivex Action

On April 1, 2016, the Company also filed a patent infringement lawsuit against Vivex BioMedical ("Vivex") for permanent injunctive relief and unspecified damages (the "Vivex Action"). The lawsuit was filed in the United States District Court for the Northern District of Georgia. The patent at issue is the 8,709,494 patent (the "494" patent). Vivex answered the Company's complaint and filed counterclaims of non-infringement and invalidity. On January 4, 2017, the Court granted a joint motion to stay the proceedings pending the outcome of the Bone Bank Action.

#### ***Pending IPRs***

In addition to defending the claims in the pending district court litigations, defendants in the Liventa and Bone Bank cases have challenged certain of the Company's patents in several IPR proceedings to avoid the high burden of proof of proving invalidity by "clear and convincing evidence" in the district court litigations. An inter partes review (or "IPR") is a request for a specialized group within the United States Patent and Trademark Office to review the validity of a plaintiff's patent claims. The defendants in the Bone Bank Action challenged the validity of the Company's 8,597,687 (the "687" patent) and the '494 patent; while the defendants in the Liventa Action challenged the validity of the Company's 8,372,437 and 8,323,701 patents (the "'437" and "'701" patents, respectively).

On June 29, 2015, the Patent Trial and Appeals Board ("PTAB") denied the Bone Bank defendants' request for institution of an IPR with respect to the '494 patent (EpiFix) on all seven challenged grounds. On August 18, 2015, the PTAB also denied the Liventa defendants' request for institution of an IPR with respect to the '701 patent (AmnioFix) on all six challenged grounds. That is, the PTAB decided in each case that the defendants failed to establish a reasonable likelihood that defendants would prevail in showing any of the challenged claims of the '494 or the '701 patent were unpatentable.

On July 10, 2015, the PTAB issued an opinion allowing a review of the '687 patent to proceed, although on only two of the five challenged grounds. On July 7, 2016, the PTAB issued an opinion finding that the challenged claims, which relate to embossment and not configuration, were invalid for obviousness. The Company decided not to appeal the decision, as it impacted a non-core patent. On August 18, 2015, the PTAB issued an opinion allowing a review of the '437 patent to proceed, although only on one of the seven challenged grounds. On August 16, 2016, the PTAB issued an opinion finding that the challenged claims were unpatentable. MiMedx has filed an appeal of the PTAB's decision regarding the '437 patent.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock was approved for quotation on the OTC Bulletin Board on July 19, 2007. Only a limited number of shares were traded after the approval of the quotation in July 2007. The common stock was traded with the trading symbol of "AYXC." Our common stock began trading under the symbol "MDXG" on April 2, 2008. On April 25, 2013, our common stock was approved for trading on the NASDAQ Capital Market.

The following table sets forth, for the periods indicated, the range of high and low sale prices per share of common stock on NASDAQ for the fiscal years ended December 31, 2016 and 2015.

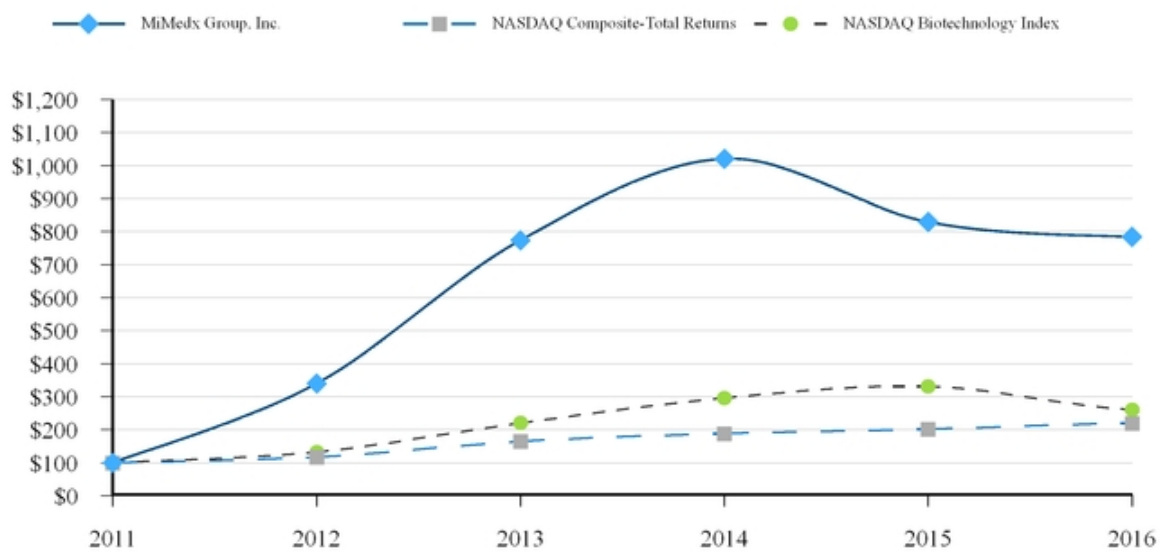
Year Ended December 31, 2016	High	Low
First Quarter	\$ 9.25	\$ 7.31
Second Quarter	9.19	6.66
Third Quarter	9.34	7.06
Fourth Quarter	9.99	7.85
Year Ended December 31, 2015	High	Low
First Quarter	\$ 11.33	\$ 7.92
Second Quarter	11.93	8.97
Third Quarter	13.20	8.52
Fourth Quarter	10.14	6.71

Based upon information supplied from our transfer agent, there were approximately 756 shareholders of record of our common stock as of February 15, 2017.

## Stock Performance Graph

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total stockholder return of the Nasdaq Composite Index and the Nasdaq Biotechnology Index and assumes an investment of \$100.00 on December 31, 2011, in each of the common stock, the stocks comprising the Nasdaq Composite Index and the stocks comprising the Nasdaq Biotechnology Index.

### COMPARISON OF CUMULATIVE TOTAL RETURN



ASSUMES \$100 INVESTED ON DEC. 31, 2011  
ASSUMES NO DIVIDENDS  
FISCAL YEAR ENDING DEC. 31, 2016

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total number of shares purchased under publicly announced plan (b)	Total Amount Spent Under the Plan During Each Period	Remaining Amount to be Spent Under the Plan
Total amount remaining October 1, 2016					\$ 3,935,789
October 1, 2016 - October 31, 2016	18,202	\$ —	\$ —	\$ —	3,935,789
November 1, 2016 - November 30, 2016	11,542	\$ —	\$ —	\$ —	3,935,789
December 2016 increased spending authorization					6,000,000
December 1, 2016 - December 31, 2016	2,520	\$ —	\$ —	\$ —	9,935,789
<b>Total for the quarter</b>	<b>32,264</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	

(a) Shares repurchased during the quarter include 32,264 shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock.

(b) On May 12, 2014, our Board of Directors authorized the repurchase of up to \$10 million of our common stock from time to time, through December 31, 2014. The Board subsequently extended the program until December 31, 2017. In December 2014, the Board increased the authorization to a total of \$20 million and further increased the authorization in 2015 to a total of \$60 million. In December 2016, the Board further increased the authorization to a total of \$66 million. In February 2017, the Board authorized a further increase of \$20 million, which brings the total amount authorized to \$86 million. The timing and amount of repurchases will depend upon the Company's stock price, economic and market conditions, regulatory requirements, and other corporate considerations. The Company may initiate, suspend or discontinue purchases under the stock repurchase program at any time.

**Item 6. Selected Financial Data**

The following selected consolidated financial data was derived from our consolidated financial statements. The data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and Consolidated Financial Statements and notes in Item 8.

	As of December 31, in thousands				
	2016	2015	2014	2013	2012
<b>Statement of Operations Data:</b>					
Net sales	\$ 245,015	\$ 187,296	\$ 118,223	\$ 59,181	27,054
Gross margin	212,608	167,094	105,558	49,853	21,865
Operating income (loss)	18,446	24,364	7,100	(2,639)	(5,355)
Net income (loss)	11,974	29,446	6,220	(4,112)	(7,662)
Net income (loss) per common share - basic	0.11	0.28	0.06	(0.04)	(0.09)
Net income (loss) per common share - diluted	\$ 0.11	\$ 0.26	\$ 0.05	\$ (0.04)	\$ (0.09)

	As of December 31, in thousands				
	2016	2015	2014	2013	2012
<b>Balance Sheet Data:</b>					
Total assets	\$ 193,263	\$ 135,913	\$ 109,259	\$ 84,694	\$ 35,183
Working capital	75,806	69,533	67,272	55,781	13,072
Long term liabilities	9,531	1,148	1,526	1,518	10,158
Stockholders' equity	\$ 133,000	\$ 107,988	\$ 89,329	\$ 73,568	\$ 20,007

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the corresponding notes included in Item 8. Certain percentages presented in this discussion and analysis are calculated from the underlying whole dollar amounts and therefore may not recalculate from the rounded numbers used for disclosure purposes. Some of the information contained in this discussion and analysis or set forth elsewhere in this report includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires making estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue, and expenses during the reporting periods. On an ongoing basis, we evaluate such estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### Overview

MiMedx® is an integrated developer, processor and marketer of patent protected and proprietary regenerative biomaterial products and bioimplants processed from human placental tissue, skin and bone. "*Innovations in Regenerative Biomaterials*" is the framework behind our mission to provide physicians with innovative products that help the body heal itself. MiMedx is the leading global supplier of amniotic tissue products, having supplied over 700,000 allografts to date in Wound Care, Burns, Surgery, Orthopedics, Spine, Sports Medicine, Ophthalmology and Dentistry.

### Recent Events

#### *FDA Guidance*

On December 22, 2014, the FDA issued for comment "Draft Guidance for Industry and FDA Staff: Minimal Manipulation of Human Cells, Tissues, and Cellular and Tissue-Based Products." Essentially, the Minimal Manipulation draft guidance takes the same position with respect to micronized amniotic tissue that it took in the Untitled Letter to the Company 16 months earlier. The Company submitted comments to the Minimal Manipulation draft guidance asserting that the Minimal Manipulation draft guidance represents agency action that goes far beyond the FDA's statutory authority, is inconsistent with existing HCT/P regulations and the FDA's prior positions, and is internally inconsistent and scientifically unsound. On October 28, 2015, the FDA issued for comment, "Draft Guidance for Industry and FDA Staff: Homologous Use of Human Cells, Tissues, and Cellular and Tissue-Based Products." The Company submitted comments on this Homologous Use draft guidance as well. On September 12 and 13, 2016, the FDA held a public hearing to obtain input on the Homologous Use draft guidance and the previously released Minimal Manipulation draft guidance, as well as other recently issued guidance documents on HCT/Ps. The Company awaits further decision from FDA on the draft guidances, but anticipates this will be a lengthy process.

#### *Change in purchasing procedure at Department of Veterans Affairs*

In 2016, the Department of Veterans Affairs ("VA") announced a change in its internal purchasing procedures. Among other things, under the new directive, the VA would require internal pre-authorization by a warranted contracting officer for any implant purchases greater than \$3,500, except for implants from VA-owned inventory or a consignment agreement negotiated by a VA contracting officer. Different VA facilities interpreted the new directive differently, and also began implementing different portions of it at different times. Numerous vendors to the VA, including the Company, have requested that the VA provide clarification to its facilities on the new policy in order to minimize disruption in patient care.

### Critical Accounting Policies

We believe that of our significant accounting policies, which are described in Note 2 to our financial statements appearing elsewhere in this report, the following accounting policies involve a greater degree of judgment and complexity.

#### *Revenue Recognition and Sales Returns, Discounts, and Allowances Accruals*

We sell our products primarily through a combination of a direct sales force, independent stocking distributors and third - party representatives in the U.S. and independent distributors in international markets. We recognize revenue when title to the goods and risk of loss transfers to customers, provided there are no material remaining performance obligations required of the Company or any matters of customer acceptance. We record revenues from sales to our independent stocking distributors at the time the product is shipped to the distributor. Our stocking distributors, who sell the products to their customers or sub-distributors, contractually take title to the products and assume all risks of ownership at the time of shipment. Our stocking distributors are obligated to pay us the contractually agreed upon invoice price within specified terms regardless of when, if ever, they sell the products. Our stocking distributors do not have any contractual rights of return or exchange other than for defective product or shipping error; however, in limited situations, we do accept returns or exchanges at our discretion.

Some of the Company's sales to Government accounts, including the Department of Veterans Affairs, are made through a distributor relationship with AvKARE, which is a veteran-owned General Services Administration Federal Supply Schedule (FSS) contractor. The Company's agreement with AvKARE expires, subject to certain for-cause termination rights, on June 30, 2017. The Company may also elect to terminate the agreement without cause and pay a termination fee to AvKARE as specified in the agreement. Upon termination of the agreement, the parties may mutually agree to extend the agreement or the Company has an obligation to repurchase AvKARE's remaining inventory, if any, within ninety (90) days in accordance with the terms of the Agreement. At the end of the term, the parties expect AvKARE's inventory to be minimal, based upon AvKARE's obligation to use commercially reasonable efforts to achieve target sales levels over the remaining term of the agreement.

We continually evaluate new and current customers, including our stocking distributors, for collectability based on various factors including past history with the customer, evaluation of their credit worthiness, and current economic conditions. We only record revenue when collectability is reasonably assured. A portion of the Company's revenue is generated from inventory maintained at hospitals or physician's offices.

We make estimates of potential future sales returns, discounts and allowances related to current period product revenue and these are reflected as a reduction of revenue in the same period revenue is recognized. We base our estimate for sales returns, discounts and allowances on historical sales and product return information, including historical experience and actual and projected trend information as well as projected sales returns based on estimated usage and contractual arrangements with AvKARE. These estimates have historically been consistent with actual results.

#### *Goodwill and Impairment of Long-Lived Assets*

Goodwill is the excess of the purchase price over the fair value of net assets of acquired businesses. Goodwill is tested for impairment annually or whenever an event occurs or circumstances change that would indicate that the carrying amount may be impaired. The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows. Our estimates associated with the goodwill impairment test are considered critical due to the amount of goodwill recorded on our consolidated balance sheets and the judgment required in determining fair value, including projected future cash flows. No goodwill impairment has been recognized during 2016, 2015 or 2014.

Other intangible assets include patents, trademarks, and purchased technology. Intangible assets with a definite life are amortized on a straight-line or accelerated basis, as appropriate, with estimated useful lives ranging from ten to fourteen years, and are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. Indefinite-lived intangible assets are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. Refer to Note 8 to the consolidated financial statements in Item 8 for additional information. Our impairment reviews are based on an estimated future cash flow approach that requires significant judgment with respect to future revenue and expense growth rates, selection of appropriate discount rate, asset groupings, and other assumptions and estimates. We use estimates that are consistent with our business plans and a market participant view of the assets being evaluated. Actual results may differ from our estimates. No impairments have been recognized during 2016, 2015 and 2014.



## *Fair Value Measurements*

We record certain financial instruments at fair value, including: cash equivalents and contingent consideration. We may make an irrevocable election to measure other financial instruments at fair value on an instrument-by-instrument basis; although as of December 31, 2016 we have not chosen to make any such elections. Fair value financial instruments are recorded in accordance with the fair value measurement framework.

We also measure certain non-financial assets at fair value on a non-recurring basis. These non-recurring valuations include evaluating assets such as long-lived assets, and non-amortizing intangible assets for impairment; allocating value to assets in an acquired asset group; and applying accounting for business combinations including related earn out liability. We use the fair value measurement framework to value these assets and report the fair values in the periods in which they are recorded or written down.

The fair value measurement framework includes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair values in their broad levels. These levels from highest to lowest priority are as follows:

- *Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;*
- *Level 2: Quoted prices in active markets for similar assets or liabilities or observable prices that are based on inputs not quoted on active markets, but corroborated by market data; and*
- *Level 3: Unobservable inputs or valuation techniques that are used when little or no market data is available.*

The determination of fair value and the assessment of a measurement's placement within the hierarchy requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include: estimates of prices, earnings, costs, earn out assumptions, actions of market participants, market factors, or the weighting of various valuation methods. We may also engage external advisors to assist us in determining fair value, as appropriate.

Although we believe that the recorded fair value of our financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

## *Share-based Compensation*

We follow the provisions of FASB Accounting Standards Codification ("ASC") 718, "Compensation — Stock Compensation" (ASC 718), previously referred to as Statement of Financial Accounting Standards No. 123R — Share-based Payments which requires the measurement and recognition of compensation expense for all share-based payment awards either modified or granted to employees and directors based upon estimated fair values. The Black-Scholes-Merton option-pricing model, consistent with the provisions of ASC 718, was used to determine the fair value of each option granted. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. We use projected volatility rates, which are based upon historical volatility rates, trended into future years. Because our stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our options.

## *Income Taxes*

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we

determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

## **Recently Adopted Accounting Pronouncements**

See Note 2 to the consolidated financial statements in Item 8 for recently adopted accounting pronouncements.

## **Results of Operations for the year ended December 31, 2016, compared to the year ended December 31, 2015**

### ***Revenue***

We recorded revenue for the year ended December 31, 2016 of \$245.0 million, a \$57.7 million or 30.8% increase over 2015 revenue of \$187.3 million.

Wound Care revenue in 2016 was \$184.0 million which represented a \$42.9 million, or 30.4%, increase over 2015 revenue of \$141.1 million. Surgical, Sports Medicine, and Orthopedics (SSO) revenue in 2016 was \$61.0 million which represented a \$14.8 million, or 32%, increase over 2015 revenue of \$46.2 million.

The increase of \$57.7 million in 2016 revenue as compared to 2015 includes approximately \$21.1 million in volume from market share gains and market expansion as well as the addition of in excess of 1,600 new customers due to the increase of our direct sales force and new customers added as part of the acquisition of Stability Biologics. Overall pricing was \$15.3 million favorable and was impacted by a continued shift from distributor to direct sales and product mix was \$ 21.3 million favorable primarily due to the sale of new products including those from Stability Biologics.

We group our products into two categories: Wound Care and Surgical, Sports Medicine & Orthopedics (SSO) for purposes of the required disclosure under ASC 280-10-50-40. Sales for these product categories have been disclosed in Note 17. This grouping of products does not constitute a basis for resource allocation but is information intended to provide the reader with ability to better understand our product categories. These groupings also do not meet the criteria under ASC 280-10-50-1 as separate segment.

### ***Gross Margin***

2016 gross margins were 86.8% as compared to 89.2% in 2015. Gross margins decreased due to the impact of one-time inventory costs incurred in connection with the Stability acquisition as well as lower than expected margins in bone and skin products acquired as part of the Stability acquisition, somewhat offset by favorable customer mix and improved manufacturing efficiencies in wound care and other SSO products.

### ***Research and Development Expenses***

Our research and development expenses increased approximately \$3.6 million, or 42.9%, to \$12 million in 2016, compared to approximately \$8.4 million in the prior year. The increase is primarily related to increased investments in clinical trials, personnel costs, lab supplies, and consulting fees. We expect research and development expenses to remain in line with current spending on a percentage of sales basis moving forward.

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

Selling, General and Administrative expenses for 2016 increased approximately \$46.6 million, or 34.9%, to \$180.0 million compared to \$133.4 million for 2015. Selling expense increases were driven primarily by costs associated with the continued build of our direct sales organization for both the Wound Care and SSO markets, where headcount grew by 71 during the year, as well as increased commissions due to higher sales volume. General and administrative expense increases were driven primarily by costs associated with adding personnel to support continued growth including government affairs and other support areas as well as the addition of Stability Biologics personnel and associated costs. Selling, General and Administrative expenses consist of personnel costs, professional fees, sales commissions, sales training costs, industry trade show fees and expenses, product promotions and product literature costs, facilities costs and other sales, marketing and administrative costs, depreciation and amortization, and share-based compensation. Share-based compensation included in Selling, General and

Administrative for the years ended December 31, 2016 and 2015, was approximately \$16.7 million and \$15.8 million, respectively, an increase of approximately \$0.9 million, or 5.7%. Amortization expense related to intangible assets increased approximately \$1.2 million, or 133.3%, to \$2.1 million for the year ended December 31, 2016, compared to \$0.9 million in the prior year due to the acquisition of Stability. We amortize our intangible assets over a period of 4 to 19 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 we test our goodwill at least annually for impairment and periodically evaluate other intangibles for impairment based on events or changes in circumstances as they occur.

### ***Net Interest Expense***

We recorded financing and net interest expense of approximately \$339,000 during the year ended December 31, 2016, compared with approximately \$86,000 of financing and net interest expense during the year ended December 31, 2015. The increase is due to the amortization of deferred financing costs incurred during 2016 related to our \$50 million revolving credit facility and commitment and undrawn fees connected to our line of credit. See Note 9 in the consolidated financial statements in Item 8 for further details.

## **Results of Operations for the year ended December 31, 2015, compared to the year ended December 31, 2014**

### ***Revenue***

The increase of \$69.1 million in 2015 revenue as compared to 2014 includes approximately \$81.2 million in volume from both existing customers as well as the addition of over 1,500 new customers due to the increase of our direct sales force, increased use of distributors, taking market share from other suppliers of wound care technologies, as well as market expansion due to the clinical and cost benefits of our EpiFix platform. Growth was also driven by expansion into several new surgical applications with our new AmnioFix platform. Overall pricing was (\$17.4) million unfavorable driven by a change in reimbursement for Medicare patients treated in a hospital outpatient setting to a bundled payment system as well as increased sales to distributors. Product mix was favorable by \$5.3M primarily due to the sale of new products. Wound Care revenue in 2015 grew by \$47.5million, or approximately 51% as compared with 2014. SSO revenue in 2015 grew by \$21.6 million, or approximately 88% compared with 2014.

### ***Gross Margin***

Gross Margin in 2015 was 89.2% versus 89.3% when compared to the prior year. The slight decrease is due to the expiration of pass through status of our wound care products for Medicare patients in hospital out-patient clinics and ambulatory surgery centers, product and customer sales mix, mostly offset by an increase in direct sales revenue and higher production rates that absorb a greater percentage of fixed manufacturing costs, and continued improvements in manufacturing efficiencies. SSO sales have lower gross margins than Wound Care sales, so we expect cost of sales as a percentage of revenue to increase as SSO sales become a larger percentage of total company sales.

### ***Research and Development Expenses***

Our research and development expenses increased approximately \$1.4 million, or 19%, to \$8.4 million in 2015, compared to approximately \$7.0 million in the prior year. The increase is primarily related to increased investments in clinical trials, personnel costs, lab supplies, and consulting fees.

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

Selling, General and Administrative expenses for 2015 increased approximately \$42.9 million, or 47%, to \$133.4 million compared to \$90.5 million for 2014. Selling expense increases were driven primarily by costs associated with building our direct sales organization for both the Wound Care and SSO markets, where headcount grew by 65 during the year, as well as increased commissions due to higher sales volume. General and administrative expense increases were driven primarily by costs associated with adding personnel to support continued growth, as well as increased patent litigation costs.

Selling, General and Administrative expenses consist of personnel costs, professional fees, sales commissions, sales training costs, industry trade show fees and expenses, product promotions and product literature costs, facilities costs and other sales, marketing and administrative costs, depreciation and amortization, and share-based compensation. Share-based compensation included in Selling, General and Administrative for the years ended December 31, 2015 and 2014, was approximately \$15.8 million and \$10.5 million, respectively, an increase of approximately \$5.3 million, or 50%.

Amortization expense related to intangible assets remained flat at \$0.9 million for the year ended December 31, 2015 as compared to the prior year.

### Net Interest Expense

We recorded financing and net interest expense of approximately \$86,000 during the year ended December 31, 2015, compared with approximately \$48,000 of financing and net interest expense during the year ended December 31, 2014. The increase is due to the amortization of deferred financing costs incurred during 2015 related to our \$50 million revolving credit facility. See Note 9 in the consolidated financial statements in Item 8 for further details.

### Contractual Obligations

Contractual obligations associated with ongoing business activities are expected to result in cash payments in future periods. The table below summarizes the amounts and estimated timing of these future cash payments as of December 31, 2016 (in thousands):

Contractual Obligations	TOTAL	Less than			
		1 year	1-3 years	3-5 years	Thereafter
Capital lease obligations	\$ 31	\$ 29	\$ 2	\$ —	
Operating lease obligations	6,988	2,089	3,894	631	374
Software License	284	95	189	—	
Meeting space commitments	1,662	643	1,019	—	
	<u>\$ 8,965</u>	<u>\$ 2,856</u>	<u>\$ 5,104</u>	<u>\$ 631</u>	<u>\$ 374</u>

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

### Liquidity and Capital Resources

Our net working capital at December 31, 2016, increased \$6.3 million to \$75.8 million from \$69.5 million at December 31, 2015. The increase in working capital was primarily due to our revenue growth resulting in an increase in accounts receivable, mostly offset by cash used for share repurchases. The current ratio (current assets divided by current liabilities) decreased to 2.5 as of December 31, 2016, as compared to 3.6 at December 31, 2015.

On October 12, 2015, the Company and its subsidiaries entered into a Credit Agreement (the "Credit Agreement") with certain lenders and Bank of America, N.A., as administrative agent. The Credit Agreement establishes a senior secured revolving credit facility in favor of the Company, with an aggregate lender commitment of up to \$50 million at any time outstanding. As of the date hereof, there are no outstanding revolving loans under the Credit Agreement. The Credit Agreement also provides for an uncommitted incremental facility of up to \$35 million, which can be exercised as one or more revolving commitment increases or new term loans, all subject to certain customary terms and conditions set forth in the Credit Agreement. The obligations of the Company under the Credit Agreement are guaranteed by the Company's subsidiaries. Borrowings under the Credit Agreement bear interest at a rate equal to, at the Company's option, the base rate or LIBOR, in each case plus an applicable margin. The base rate under the Credit Agreement equals the highest of (i) the agent's prime rate, (ii) the Federal Funds rate plus 0.50%, or (iii) LIBOR for a one month interest period plus 1.0%. The initial applicable margin is 0.50% with respect to base rate borrowings and 1.50% with respect to the LIBOR borrowings. The applicable margin is subject to quarterly pricing adjustments based on the Company's consolidated leverage ratio. In addition to paying interest on outstanding principal under the facility, the Company is required to pay a commitment fee in respect of committed but unutilized commitments equal to 0.25% per annum initially. The commitment fee is subject to quarterly adjustments based on the Company's consolidated leverage ratio. The Company must pay a fee on outstanding letters of credit under the facility at a rate equal to the applicable margin in respect of LIBOR borrowings plus certain fronting and administrative fees. The maturity date of the revolving credit facility is October 12, 2018. The Credit Agreement provides that the maturity date may be extended up to twice for one additional year each, subject to certain customary terms and conditions set forth in the Credit Agreement, if requested by the Company and agreed-upon by the lenders. The Credit Agreement contains customary covenants and events of default for senior secured credit agreements of this type. The covenants include (a) a requirement for the Company to maintain a maximum consolidated leverage ratio of 2.50:1.00; (b) a requirement for the Company to maintain a minimum consolidated fixed charge coverage ratio of 2.00:1.00; and (c) a requirement for the Company to maintain minimum liquidity of \$10 million.

December 31, 2016, there were no outstanding revolving loans under the facility and the Company was in compliance with all of its covenants.

For the twelve months ended December 31, 2016, in connection with the acquisition of Stability, the Company paid approximately \$6 million in cash for the initial purchase price, paid off debt of approximately \$1.8 million.

For the twelve months ended December 31, 2016, the Company repurchased 1,338,616 shares of its common stock for a purchase price of approximately \$10,338,000, before brokerage commissions of approximately \$40,000 bringing the total amount spent under the program to approximately \$56,064,000 since inception. As of December 31, 2016, the Company had approximately \$9,936,000 of availability remaining under the repurchase program. The timing and amount of future repurchases, if any, will depend upon the Company's stock price, economic and market conditions, regulatory requirements, and other corporate considerations. The Company may initiate, suspend or discontinue purchases under the stock repurchase program at any time.

In addition, during the twelve months ended December 31, 2016, the Company repurchased 141,658 shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock.

As of December 31, 2016, we had approximately \$34.4 million of cash and cash equivalents. We believe that our anticipated cash from operating activities, existing cash and cash equivalents and availability under the Credit Agreement will enable us to meet our operational liquidity needs and fund our planned investing activities for the next year.

#### **Discussion of cash flows**

Net cash from operations during the year ended December 31, 2016, increased approximately \$7.0 million to \$25.8 million, compared to \$18.8 million from operating activities for the year ended December 31, 2015, and was primarily attributable to a smaller increase in accounts receivable as compared to the prior year's increase.

Net cash used for investing activities during the year ended December 31, 2016, increased approximately \$11.0 million to \$11.7 million compared to \$0.7 million used in investing activities for the year ended December 31, 2015. The increase was primarily due to the acquisition of Stability.

Net cash flows used for financing activities during the year ended December 31, 2016, was approximately \$8.2 million compared to \$36.2 million during the year ended December 31, 2015. The decrease is primarily due to a decrease in share repurchases.

#### **Non-GAAP Financial Measures**

In addition to our GAAP results, we provide certain Non-GAAP metrics including Adjusted EBITDA, Adjusted Gross Margin, Adjusted Net Income and Adjusted Diluted Net Income per share. We believe that the presentation of these measures provides important supplemental information to management and investors regarding our performance. These measurements are not a substitute for GAAP measurements, although Company management uses these measurements as aids in monitoring the Company's on-going financial performance from quarter-to-quarter and year-to-year on a regular basis and for benchmarking against other medical technology companies. Adjusted EBITDA consists of GAAP Net Income excluding: (i) depreciation and amortization, (ii) interest income and expense, (iii) income taxes, (iv) one time acquisition related costs, (v) the effect of purchase accounting due to acquisitions and (vi) share-based compensation expense. Due to the impact of the acquisition of Stability in January 2016 and the release of the valuation allowance on the deferred tax asset on reported tax expense in 2015 on results, we have decided to provide additional adjusted non-GAAP measures to provide comparability of normal ongoing operating results. Beginning in 2016, we have reported Adjusted Gross Margin, Adjusted Net Income and Adjusted Diluted Net Income per Share to normalize results for comparison purposes. Adjusted Gross Margin consists of GAAP gross margin excluding amortization of inventory fair value step-up. Adjusted Net Income and Adjusted Diluted Net Income per share consists of GAAP net income excluding: (i) one time acquisition related costs, (ii) amortization of inventory fair value step-up, (iii) amortization of intangible assets and (iv) share-based compensation. Reconciliations of GAAP net income to Adjusted EBITDA, GAAP Gross Margin to Adjusted Gross Margin and GAAP Net Income to Adjusted Net Income and Adjusted Diluted Net Income per share for the years ended December 31, 2016, 2015 and 2014 appear in the tables below (in thousands):

	Years Ended December 31		
	2016	2015	2014
Net Income (Per GAAP)	\$ 11,974	\$ 29,446	\$ 6,220
Add back (deduct):			
Income taxes	6,133	(5,168)	832
One time costs incurred in connection with acquisition	1,088	—	—
One time inventory costs incurred in connection with acquisition	1,593	—	—
Other interest expense, net	339	86	48
Depreciation expense	3,333	1,799	1,197
Amortization of intangible assets	2,127	933	928
Share-based compensation	17,818	16,896	11,453
Adjusted EBITDA	\$ 44,405	\$ 43,992	\$ 20,678

Reconciliation of "Adjusted Gross Margin" defined as Gross Margin before Amortization of inventory fair value step-up (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Gross Margin (Per GAAP)	\$ 212,608	\$ 167,094	\$ 105,558
Non-GAAP Adjustments:			
One time inventory costs incurred in connection with acquisition	1,593	—	—
Gross Margin before Amortization of inventory fair value step-up	\$ 214,201	\$ 167,094	\$ 105,558
Adjusted Gross Margin	87.4%	89.2%	89.3%

Reconciliation of "Adjusted Net Income" and "Adjusted Diluted Net Income" per share defined as Net Income less Amortization, One Time Costs and Share-Based Compensation (in thousands, except share and per share data):

	Years Ended December 31,		
	2016	2015	2014
Net Income (Per GAAP)	\$ 11,974	\$ 29,446	\$ 6,220
Non-GAAP Adjustments:			
Tax rate normalization*	(898)	(15,374)	(4,069)
One time costs incurred in connection with acquisition	1,088	—	—
One time inventory costs incurred in connection with acquisition	1,593	—	—
Amortization of intangible assets	2,127	933	928
Share - based compensation	17,818	16,896	11,453
Estimated income tax impact from adjustments	(9,335)	(7,495)	(8,605)
Adjusted Net Income	\$ 24,367	\$ 24,406	\$ 5,927
Adjusted diluted net income per share	\$ 0.22	\$ 0.21	\$ 0.05
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	112,441,709	113,628,482	113,295,504

\*Assumes a normalized tax rate of 40% for 2016, 42% for 2015 and 70% for 2014.

## Inflation

We do not believe that the rate of inflation has had a material effect on our operating results. However, inflation could adversely affect our future operating results.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Based on our lack of market risk sensitive instruments outstanding at December 31, 2016, we have determined that there was no material market risk exposure to our consolidated financial position, results of operations or cash flows as of such date.

## Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of MiMedx Group, Inc.

We have audited the accompanying consolidated balance sheets of MiMedx Group, Inc. and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. We have also audited the accompanying consolidated financial statement schedule for each of the three years in the period ended December 31, 2016 listed in the index at Item 15. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MiMedx Group, Inc. and subsidiaries as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule for each of the three years in the period ended December 31, 2016, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MiMedx Group, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2017 expressed an adverse opinion.

*/s/ Cherry Bekaert LLP*

Atlanta, Georgia

March 1, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of MiMedx Group, Inc.

We have audited MiMedx Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). MiMedx Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in the design of the Company's controls over the tax accounting related to an overstatement of an excess tax benefit which if undetected would have resulted in an understatement of income taxes payable. Specifically, management did not have adequate supervision and review of certain technical tax accounting performed by a third party tax specialist in 2016. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 financial statements, and this report does not affect our report dated March 1, 2017, on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, MiMedx Group, Inc. has not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of operations, stockholders' equity, and cash flows of MiMedx Group, Inc., and our report dated March 1, 2017, expressed an unqualified opinion.

*/s/ Cherry Bekaert LLP*

Atlanta, Georgia

March 1, 2017

**MIMEDX GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	December 31,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 34,391	\$ 28,486
Short term investments	—	3,000
Accounts receivable, net	67,151	53,755
Inventory, net	17,814	7,460
Prepaid expenses	5,894	3,394
Other current assets	1,288	215
<b>Total current assets</b>	<b>126,538</b>	<b>96,310</b>
Property and equipment, net of accumulated depreciation	13,786	9,475
Goodwill	20,203	4,040
Intangible assets, net of accumulated amortization	23,268	10,763
Deferred tax asset, net	9,114	14,838
Deferred financing costs and other assets	354	487
<b>Total assets</b>	<b>\$ 193,263</b>	<b>\$ 135,913</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 11,436	\$ 6,633
Accrued compensation	12,365	15,034
Accrued expenses	10,941	4,644
Current portion of earn out liability	8,740	—
Income taxes	5,768	(67)
Other current liabilities	1,482	533
<b>Total current liabilities</b>	<b>50,732</b>	<b>26,777</b>
Earn out liability	8,710	—
Other liabilities	821	1,148
<b>Total liabilities</b>	<b>60,263</b>	<b>27,925</b>
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock; \$.001 par value; 5,000,000 shares authorized and 0 shares issued and outstanding	—	—
Common stock; \$.001 par value; 150,000,000 shares authorized; 110,212,547 issued and 109,862,787 outstanding at December 31, 2016 and 109,467,416 issued and 107,361,471 outstanding at December 31, 2015	110	109
Additional paid-in capital	161,261	163,133
Treasury stock at cost: 349,760 shares at December 31, 2016 and 2,105,945 shares at December 31, 2015	(2,216)	(17,125)
Accumulated deficit	(26,155)	(38,129)
<b>Total stockholders' equity</b>	<b>133,000</b>	<b>107,988</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 193,263</b>	<b>\$ 135,913</b>

See notes to consolidated financial statements

**MIMEDX GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except share and per share data)

	Years Ended December 31,		
	2016	2015	2014
Net sales	\$ 245,015	\$ 187,296	\$ 118,223
Cost of sales	32,407	20,202	12,665
Gross margin	212,608	167,094	105,558
Operating expenses:			
Research and development expenses	12,038	8,413	7,050
Selling, general and administrative expenses	179,997	133,384	90,480
Amortization of intangible assets	2,127	933	928
Operating income	18,446	24,364	7,100
Other expense, net			
Interest expense, net	(339)	(86)	(48)
Income before income tax provision	18,107	24,278	7,052
Income tax provision (expense) benefit	(6,133)	5,168	(832)
Net income	\$ 11,974	\$ 29,446	\$ 6,220
Net income per common share - basic	\$ 0.11	\$ 0.28	\$ 0.06
Net income per common share - diluted	\$ 0.11	\$ 0.26	\$ 0.05
Weighted average shares outstanding - basic	105,928,348	105,929,205	105,793,008
Weighted average shares outstanding - diluted	112,441,709	113,628,482	113,295,504

See notes to consolidated financial statements

**MIMEDX GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except share data)

	Common Stock		Additional Paid-in	Treasury Stock		Accumulated	Total
	Shares	Amount	Capital	Shares	Amount	Deficit	
Balances, December 31, 2013	104,425,614	\$ 104	\$ 147,284	50,000	\$ (25)	\$ (73,795)	\$ 73,568
Share-based compensation expense	—	—	11,453	—	—	—	11,453
Exercise of stock options	1,653,690	2	2,468	—	—	—	2,470
Exercise of warrants	1,242,416	1	1,112	—	—	—	1,113
Issuance of restricted stock	1,438,569	1	(1)	—	—	—	—
Shares issued for services performed	15,958	—	117	—	—	—	117
Stock repurchase	—	—	—	936,636	(5,612)	—	(5,612)
Net income	—	—	—	—	—	6,220	6,220
Balances, December 31, 2014	108,776,247	\$ 108	\$ 162,433	986,636	\$ (5,637)	\$ (67,575)	\$ 89,329
Share-based compensation expense	—	—	16,896	—	—	—	16,896
Tax benefit of share-based compensation expense	—	—	7,757	—	—	—	7,757
Exercise of stock options	647,656	1	(9,792)	(1,573,225)	14,420	—	4,629
Exercise of warrants	—	—	(379)	(42,400)	425	—	46
Issuance of restricted stock	34,250	—	(14,547)	(1,940,009)	14,547	—	—
Shares Canceled / Forfeited	(2,058)	—	652	69,949	(652)	—	—
Shares issued for services performed	11,321	—	113	(5,172)	51	—	164
Stock repurchase	—	—	—	4,610,166	(40,279)	—	(40,279)
Net Income	—	—	—	—	—	29,446	29,446
Balances, December 31, 2015	109,467,416	\$ 109	\$ 163,133	2,105,945	\$ (17,125)	\$ (38,129)	\$ 107,988
Share-based compensation expense	—	—	17,818	—	—	—	17,818
Tax benefit of share-based compensation expense	—	—	(424)	—	—	—	(424)
Exercise of stock options	243,928	—	(3,767)	(918,544)	7,261	—	3,494
Issuance of restricted stock	501,203	1	(17,546)	(2,210,879)	17,546	—	1
Restricted stock shares canceled/forfeited	—	—	2,503	377,317	(2,503)	—	—
Shares issued for services performed	—	—	6	(43,344)	340	—	346
Stock repurchase	—	—	—	1,338,616	(10,378)	—	(10,378)
Shares repurchased for tax withholding	—	—	—	141,658	(1,165)	—	(1,165)
Shares issued in conjunction with acquisition	—	—	(462)	(441,009)	3,808	—	3,346
Net income	—	—	—	—	—	11,974	11,974
Balances, December 31, 2016	110,212,547	\$ 110	\$ 161,261	349,760	\$ (2,216)	\$ (26,155)	\$ 133,000

See notes to consolidated financial statements

**MIMEDX GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	\$ 11,974	\$ 29,446	\$ 6,220
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	3,333	1,799	1,197
Amortization of intangible assets	2,127	933	928
Amortization of inventory fair value step-up	1,485	—	—
Amortization of deferred financing costs	181	42	—
Share-based compensation	17,818	16,896	11,453
Change in deferred income taxes	(594)	(7,081)	—
Increase (decrease) in cash, net of effects of acquisition, resulting from changes in:			
Accounts receivable	(11,396)	(27,083)	(10,579)
Inventory	(2,837)	(2,327)	(1,252)
Prepaid expenses	(2,400)	(1,854)	(203)
Other current assets	(384)	(240)	—
Accounts payable	(3,665)	3,136	1,287
Accrued compensation	(2,669)	3,511	5,935
Accrued expenses	6,297	2,140	1,098
Income taxes	5,835	(519)	452
Other liabilities	723	8	266
<b>Net cash flows from operating activities</b>	<b>25,828</b>	<b>18,807</b>	<b>16,802</b>
Cash flows from investing activities:			
Purchases of equipment	(6,269)	(5,827)	(2,558)
Purchase of Stability Inc., net of cash acquired	(7,631)	—	—
Fixed maturity securities redemption	3,000	6,000	(9,000)
Patent application costs	(842)	(851)	(594)
<b>Net cash flows from investing activities</b>	<b>(11,742)</b>	<b>(678)</b>	<b>(12,152)</b>
Cash flows from financing activities:			
Proceeds from exercise of stock options	3,494	4,629	2,470
Proceeds from exercise of warrants	—	46	1,113
Stock repurchase under repurchase plan	(10,378)	(40,279)	(5,612)
Stock repurchase for tax withholdings on vesting of restricted stock	(1,165)	—	—
Deferred financing costs	(30)	(504)	—
Payments under capital lease obligations	(102)	(117)	(117)
<b>Net cash flows from financing activities</b>	<b>(8,181)</b>	<b>(36,225)</b>	<b>(2,146)</b>
<b>Net change in cash</b>	<b>5,905</b>	<b>(18,096)</b>	<b>2,504</b>
Cash and cash equivalents, beginning of period	28,486	46,582	44,078
Cash and cash equivalents, end of period	<b>\$ 34,391</b>	<b>\$ 28,486</b>	<b>\$ 46,582</b>

See notes to consolidated financial statements

## 1. Nature of Business

The Company operates in one business segment, Regenerative Biomaterials, which includes the design, manufacture, and marketing of products and tissue processing services for the Wound Care, Surgical, Sports Medicine, Ophthalmic and Dental market categories. The MiMedx allograft product families include our: dHACM family with AmnioFix® and EpiFix® brands; Amniotic Fluid family with OrthoFlo brand; Umbilical family with EpiCord® and AmnioCord® brands; Placental Collagen family with CollaFix™ and AmnioFill™ brands; and Bone family with Physio® brand. AmnioFix and EpiFix are our tissue technologies processed from human amniotic membrane; OrthoFlo is an amniotic fluid derived allograft; EpiCord and AmnioCord are derived from the umbilical cord; Physio is a bone grafting material comprised of 100% bone tissue with no added carrier; and CollaFix, our next brand we plan to commercialize, is our collagen fiber technology, developed with our patented cross-linking polymers, designed to mimic the natural composition, structure and mechanical properties of musculoskeletal tissues in order to augment their repair.

The Company is focused primarily on the United States but is actively exploring international expansion opportunities. The adoption of the technologies may vary depending on each country's regulations, but the opportunities to help individuals in the different disease states remain similar and large.

## 2. Significant Accounting Policies

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported consolidated statements of operations during the reporting period. Actual results could differ from those estimates.

### *Principles of Consolidation*

The accompanying financial statements include the accounts of MiMedx Group, Inc. and its wholly-owned subsidiaries MiMedx, Inc., MiMedx Processing Services, LLC (formerly known as SpineMedica, LLC), MiMedx Tissue Services, LLC (formerly known as Surgical Biologics, LLC) and Stability Biologics, LLC (formerly known as Stability Inc.). All significant inter-company balances and transactions have been eliminated.

### *Segment Reporting*

ASC 280, "Segment Reporting" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company has determined it has one operating segment. Disaggregation of the Company's operating results is impracticable, because the Company's research and development activities and its assets overlap, and management reviews its business as a single operating segment. Thus, discrete financial information is not available for more than one operating segment.

### *Market Concentrations and Credit Risk*

The Company places its cash and cash equivalents on deposit with financial institutions in the United States. In July 2010, the Federal Deposit Insurance Corporation ("FDIC") increased coverage to \$250,000 for substantially all depository accounts. As of December 31, 2016 and 2015, the Company had cash and cash equivalents of approximately \$33,200,000 and \$27,700,000, respectively, in excess of the insured amounts.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash and FDIC insured certificates of deposit held at various banks with an original maturity of three months or less.

## *Accounts Receivable*

Accounts receivable represent amounts due from customers for which revenue has been recognized. Generally, the Company does not require collateral or any other security to support its receivables.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing receivables. The Company determines the allowance based on factors such as historical collection experience, customers' current creditworthiness, customer concentrations, age of accounts receivable balance and general economic conditions that may affect the customers' ability to pay.

## *Inventories*

Inventories are valued at the lower of cost or market, using the first-in, first-out (FIFO) method. Inventory is tracked through Raw Material, WIP, and Finished Good stages as the product progresses through various production steps and stocking locations. Labor and overhead costs are absorbed through the various production processes up to when the work order closes. Historical yields and normal capacities are utilized in the calculation of production overhead rates. Reserves for inventory obsolescence are utilized to account for slow-moving inventory as well as inventory no longer needed due to diminished market demand.

## *Goodwill and Purchased Intangible Assets*

Goodwill and purchased intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually. The Company reviews goodwill and purchased intangible assets with indefinite lives for impairment annually at the beginning of its fourth fiscal quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Potential impairment indicators include a significant change in the business climate, legal factors, operating performance indicators, competition, and the sale or disposition of a significant portion of the business. The Company first assesses certain qualitative factors to determine whether the existence of events or circumstances would indicate that it is more likely than not that the fair value of the Company was less than its carrying amount. If after assessing the totality of events or circumstances, the Company were to determine that it is more likely than not that the fair value of the Company is less than its carrying amount, then the Company would perform a two-step quantitative impairment testing. In the first step, the Company compares the fair value of the Company to its carrying value. The Company determines the fair value utilizing the market approach. Under the market approach, the Company uses its market capitalization which is calculated by taking the Company's share price times the number of outstanding shares. If the fair value of the Company exceeds the carrying value of the net assets, goodwill is not impaired, and no further testing is required. If the fair value of the Company is less than the carrying value, the Company must perform the second step of the impairment test to measure the amount of impairment loss, if any. In the second step, the Company's value is allocated to all of the assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the Company was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss. The Company has determined that there are no goodwill and indefinite useful lives intangible impairments in 2016 and 2015.

## *Impairment of Intangible Assets with Finite Lives*

The Company reviews purchased intangible assets with finite lives for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable using a two-step impairment test. In step one, we determine the sum of the undiscounted future cash flows of the assets based on management's estimates and compare it to the carrying value of the assets. If the carrying amount is greater than the sum of the undiscounted cash flows, then the asset is impaired and step two is required. In step two, the impairment loss is calculated as the difference between the fair value of the assets and the carrying value of the assets.

Impairment reviews are based on an estimated future cash flow approach that requires significant judgment with respect to future revenue and expense growth rates, selection of appropriate discount rate, asset groupings, and other assumptions and estimates. The Company uses estimates that are consistent with our business plans and a market participant view of the assets being evaluated. Actual results may differ from our estimates. The Company has determined that there are no intangible assets with finite lives impairments in 2016 and 2015.



### *Property and Equipment*

Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, principally three to seven years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful lives or the life of the lease. The Company is party to various lease arrangements for its facility space and equipment. These arrangements include interest, scheduled rent increases and rent holidays which are included in the determination of minimum lease payments when assessing lease classification, and are included in rent expense on a straight line basis over the lease term. See Notes 7 and 16 for further information regarding capital leases, operating leases and rent expense.

### *Patent Costs*

The Company incurs certain legal and related costs in connection with patent applications for tissue based products and processes. The Company capitalizes such costs to be amortized over the expected life of the patent to the extent that an economic benefit is anticipated from the resulting patent or alternative future use is available to the Company. The Company capitalized approximately \$842,000 of patent costs during 2016, \$851,000 of patent costs during 2015 and \$594,000 of patent costs during 2014.

### *Impairment of Long-lived Assets*

The Company evaluates the recoverability of its long-lived assets (property and equipment) whenever adverse events or changes in business climate indicate that the expected undiscounted future cash flows from the related assets may be less than previously anticipated. If the net book value of the related assets exceeds the expected undiscounted future cash flows of the assets, the carrying amount would be reduced to the present value of their expected future cash flows and an impairment loss would be recognized.

### *Revenue Recognition*

The Company sells its products through a combination of a direct sales force, independent stocking distributors and third - party representatives in the U.S. and independent distributors in international markets. The Company recognizes revenue when title to the goods and risk of loss transfers to customers, provided there are no material remaining performance obligations required of the Company or any matters of customer acceptance. The Company records revenues from sales to our independent stocking distributors at the time the product is shipped to the distributor. Our stocking distributors, who sell the products to their customers or sub-distributors, contractually take title to the products and assume all risks of ownership at the time of shipment. Our stocking distributors are obligated to pay us the contractually agreed upon invoice price within specified terms regardless of when, if ever, they sell the products. Our stocking distributors do not have any contractual rights of return or exchange other than for defective product or shipping error; however, in limited situations, we do accept returns or exchanges at our discretion.

Some of the Company's sales to Government accounts, including the Department of Veterans Affairs, are made through a distributor relationship with AvKARE, which is a veteran-owned General Services Administration Federal Supply Schedule (FSS) contractor. The Company's agreement with AvKARE expires, subject to certain for-cause termination rights, on June 30, 2017. The Company may also elect to terminate the agreement without cause and pay a termination fee to AvKARE as specified in the agreement. Upon termination of the agreement, the parties may mutually agree to extend the agreement or the Company has an obligation to repurchase AvKARE's remaining inventory, if any, within ninety (90) days in accordance with the terms of the Agreement. At the end of the term, the parties expect AvKARE's inventory to be minimal, based upon AvKARE's obligation to use commercially reasonable efforts to achieve target sales levels over the remaining term of the agreement.

We continually evaluate new and current customers, including our stocking distributors, for collectability based on various factors including past history with the customer, evaluation of their credit worthiness, and current economic conditions. We only record revenue when collectability is reasonably assured. A portion of the Company's revenue is generated from inventory maintained at hospitals or physician's offices.

We make estimates of potential future sales returns, discounts and allowances related to current period product revenue and these are reflected as a reduction of revenue in the same period revenue is recognized. We base our estimate for sales returns, discounts and allowances on historical sales and product return information, including historical experience and actual and projected trend information as well as projected sales returns based on estimated usage and contractual arrangements with AvKARE. These estimates have historically been consistent with actual results.

### *Research and Development Costs*

Research and development costs consist of direct and indirect costs associated with the development of the Company's technologies. These costs are expensed as incurred.

### *Income Taxes*

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

### *Share-based Compensation*

The Company accounts for its share-based compensation plans in accordance with FASB ASC topic 718 "Compensation- Stock compensation". FASB ASC 718 requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors, including employee stock options, restricted stock and warrants. Under the provisions of FASB ASC 718, and U. S. Securities and Exchange Commission Staff Accounting Bulletin No. 107, share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense on a straight line basis over the requisite service period of the entire award (generally the vesting period of the award).

### *Fair Value of Financial Instruments*

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature and type of these instruments. These financial instruments include cash and cash equivalents, accounts receivable, short term investments, accounts payable and accrued expenses. The carrying cost of the Company's investments also reflects their fair values due to the type of these investments and the fair value of capital leases approximates their carrying value based upon current rates available to the Company.

### *Fair Value Measurements*

The Company records certain financial instruments at fair value, including: cash equivalents, short term investments and investments. The Company may make an irrevocable election to measure other financial instruments at fair value on an instrument-by-instrument basis; although as of December 31, 2016, the Company has not chosen to make any such elections. Fair value financial instruments are recorded in accordance with the fair value measurement framework.

The Company also measures certain non-financial assets at fair value on a non-recurring basis. These non-recurring valuations include evaluating assets such as long-lived assets, and non-amortizing intangible assets for impairment; allocating value to assets in an acquired asset group, and accounting for business combinations. The Company uses the fair value measurement framework to value these assets and reports these fair values in the periods in which they are recorded or written down.

The fair value measurement framework includes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair values in their broad levels. These levels from highest to lowest priority are as follows:

- *Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;*

- *Level 2: Quoted prices in active markets for similar assets or liabilities or observable prices that are based on inputs not quoted on active markets, but corroborated by market data.*
- *Level 3: Unobservable inputs or valuation techniques that are used when little or no market data is available.*

The determination of fair value and the assessment of a measurement's placement within the hierarchy require judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include: estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist it in determining fair value, as appropriate.

In connection with the acquisition of Stablity, the Company recorded a liability related to the Earn-Out portion of the purchase consideration. See Note 4, Acquisition, for further discussion of the Earn-Out liability. The Company has classified the Earn-Out liability as a Level 3 liability and the fair value of the Earn-Out liability will be evaluated each reporting period and changes in its fair value will be included in the Company's results of operations. The fair value of the Earn-Out liability was calculated using a discount rate, approximating the pre-tax cost of debt and corroborated by Monte Carlo simulation, which was then applied to estimated earn out payments. To determine the fair value of the Earn-Out liability, management evaluates assumptions that require significant judgment. Changes in certain inputs to the valuation model, including the Company's estimate of future revenues, can have a significant impact on the estimated fair value. The fair value recorded for the Earn-Out liability may vary significantly from period to period. This variability may result in the actual liability for a period either above or below the estimates recorded in the Company's Consolidated Financial Statements, resulting in significant fluctuations in results of operations as a result of the corresponding non-cash gain or loss recorded.

Although the Company believes that the recorded fair value of its financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

#### *Recently Issued Accounting Pronouncements*

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs"). In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue Recognition - Revenue from Contracts with Customers" (ASU 2014-09) that requires companies to recognize revenue when a customer obtains control rather than when companies have transferred substantially all risks and rewards of a good or service. This update is effective for annual reporting periods beginning on or after December 15, 2017 and interim periods therein and requires expanded disclosures. The Company is currently assessing the impact the adoption of ASU 2014-09 will have on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, that eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. ASU 2015-16 is effective for public companies for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company has adopted this standard in the first quarter of 2016 and its application is shown in Note 4.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The Company has adopted this standard, prospectively, at the beginning of the fourth quarter 2015 to simplify reporting with the release of the valuation allowance as disclosed in Note 12. Prior periods were not retrospectively adjusted.

In February 2016, the FASB issued Accounting Standards Update ASU No. 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. ASU 2016-02 is effective for public companies for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718)". The standard is intended to simplify several areas of accounting for share - based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. This ASU is effective for fiscal years beginning after December 15, 2016. The Company is currently assessing the impact the adoption of ASU 2016-09 will have on its consolidated financial

statements. As of December 31, 2016, the Company does not have any remaining deferred tax assets that will result in an increase to equity upon realization. See Note 12.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments". The update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017 and for interim periods within those fiscal years. The amendments in this update may be applied retrospectively or prospectively and early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU 2016-15 will have on its consolidated financial statements.

All other ASUs issued and not yet effective for the year ended December 31, 2016, and through the date of this report, were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's financial position or results of operations.

### 3. Liquidity and Capital Resources

#### Net Working Capital

As of December 31, 2016, the Company had approximately \$34,391,000 of cash and cash equivalents. The Company reported total current assets of approximately \$126,538,000 and current liabilities of approximately \$50,732,000 and had net working capital of approximately \$75,806,000 as of December 31, 2016.

#### Overall Liquidity and Capital Resources

The Company's largest cash requirement for the twelve months ended December 31, 2016 was cash for general working capital needs as well as the acquisition of Stability described in Note 4. In addition, the Company's other cash requirements included capital expenditures, and repurchases of the Company's common stock. The Company funded its cash requirements through its existing cash reserves, and its operating activities which generated approximately \$25,828,000 during the period. The Company believes that its anticipated cash from operating and financing activities and existing cash and cash equivalents, as well as availability under the Credit Agreement will enable the Company to meet its operational liquidity needs and fund its planned investing activities for the next year.

### 4. Acquisition of Stability Inc.

On January 13, 2016, the Company completed the acquisition of Stability Inc., d/b/a Stability Biologics ("Stability"), a provider of human tissue products to surgeons, facilities, and distributors serving the surgical, spine, and orthopedic sectors of the healthcare industry. As a result of this transaction, the Company acquired all of the outstanding shares of Stability in exchange for \$6,000,000 cash, \$3,346,000 in stock, represented by 441,009 shares of our common stock, and assumed debt of \$1,771,000. Additional one time costs incurred in connection with the transaction totaled \$1,088,000 and are included within selling, general and administrative expenses on the consolidated statements of operations. Contingent consideration may be payable in a formula determined by sales less certain expenses for the years 2016 and 2017. The contingent consideration was valued at \$17,450,000 as of December 31, 2016 and is shown in the schedule below as fair value of earn-out. The Company used a third party specialist to assist us with the valuation. The purchase price allocation figures should be attributed to the Company and not to the third party valuation firm. The contingent consideration was classified as a liability.

The Company has evaluated the contingent consideration for accounting purposes under GAAP and has determined that the contingent consideration is within the scope of ASC 480 "Distinguishing Liabilities from Equity" whereby a financial instrument, other than an outstanding share, that embodies a conditional obligation that the issuer may settle by issuing a variable number of its equity shares shall be classified as a liability if, at inception, the monetary value of the obligation is based solely or predominantly on variations in something other than the fair value of the issuer's equity shares.

The actual purchase price was based on cash paid, the fair value of our stock on the date of the acquisition, and direct costs associated with the acquisition. The fair value of stock consideration was determined as set forth below:

Common Share Price at Closing on 1/13/2016	\$	8.43
Multiplied by: Number of Common Shares Transferred to the Sellers		441,009
Indicated Value of Equity Consideration (on a Freely Tradable Interest Basis)	\$	3,717,706
Less: Marketability Discount @ 10%	[a]	(371,771)
Fair Value of Equity Consideration Transferred	\$	3,345,935

[a] Shares transferred to the Sellers are restricted securities pursuant to Rule 144. As such, the Sellers are prevented from selling the shares for a period of six months. In addition, they are subject to contractual lockups which restrict sales for up to twelve months following the closing of the transaction.

The actual purchase price has been allocated as follows (in thousands):

Cash paid at closing	\$	6,000
Working capital adjustment		(480)
Common stock issued (441,009 shares)		3,346
Assumed debt		1,771
Fair value of earn-out		17,450
Total fair value of purchase price	\$	28,087
Net assets acquired:		
Debt-free working capital	\$	2,456
Other long-term assets		199
Property, plant and equipment		1,375
Deferred tax liability		(5,896)
Subtotal		(1,866)
Intangible assets:		
Customer relationships		5,330
Patents and know-how		6,790
Trade names and trademarks		450
Non compete agreements		830
Licenses and permits		390
Subtotal		13,790
Goodwill		16,163
Total Assets Purchased	\$	28,087
Working capital and other assets were composed of the following (in thousands):		
Working capital		
Cash	\$	140
Prepaid Expenses and other current assets		100
Accounts receivable		2,001
Federal and state taxes receivable		28
Inventory		9,002
Accounts payable and accrued expenses		(8,815)
Debt-free working capital	\$	2,456
Current portion of long term debt		
Current portion of long term debt	\$	(194)
Long-term debt		(560)
Line of Credit		(932)
Shareholder loan		(85)
Assumed debt	\$	(1,771)
Net working capital	\$	685

The acquisition was accounted for as a purchase business combination as defined by FASB Topic 805 - "Business Combinations". The fair value of the contingent consideration is measured as a Level 3 instrument. The contingent consideration liability is recorded at fair value on the acquisition date. Increases or decreases in the fair value of contingent consideration can result from changes in anticipated revenue levels and changes in assumed discount periods and rates. As the fair value measured is based on significant inputs that are not observable in the market, they are categorized as Level 3. The income valuation approach was applied in determining the fair value of the contingent consideration using a discounted cash

flow valuation technique with significant unobservable inputs comprised of projected sales and certain expenses. The values assigned to intangible assets are subject to amortization. The intangible assets were assigned the following lives for amortization purposes:

	Estimated useful life (in years)
Intangible asset:	
Customer relationships	12
Patents and know-how	20
Trade name and Trademarks	Indefinite
Non compete agreements	4
Licenses and permits	2

Goodwill consists of the excess of the purchase price paid over the identifiable net assets and liabilities acquired at fair value. Goodwill is attributable to the assembled workforce of Stability and the synergies expected to arise following the acquisition. Goodwill is not expected to be deductible for tax purposes. Goodwill was determined using the residual method based on an independent appraisal of the assets and liabilities acquired in the transaction. Goodwill is tested for impairment on an annual basis as defined by FASB Topic 350 - "Intangibles - Goodwill and Other".

Goodwill reconciliation (in thousands):

Balance at 3/31/16	\$	22,912
Goodwill Adjustments (a)		(6,749)
Balance at 12/31/16	\$	<u>16,163</u>

(a) Goodwill is the result of a residual calculation

The changes in the preliminary fair values of the acquired assets and liabilities were due to adjustments made to the prospective financial information ("PFI") to better reflect an expected case from a market participant's perspective. As the earn-out is limited to the gross profit margin for the first two years after the acquisition, the adjustment to the PFI had a decreasing impact on the estimated fair value of the earn-out at the acquisition date, which resulted in a lower total purchase consideration and a reduction of the estimated fair value of the identifiable intangible assets.

During the measurement period, management determined that the initial PFI should be adjusted to better reflect an expected case from a market participant's perspective. At the time of the acquisition, management believed that certain of the acquired company's products had reached certain marketability milestones. Management subsequently concluded that these milestones had indeed not yet been achieved. Also, at the time of the acquisition Management believed that certain manufacturing processes were at standards aligned with our overall company standards. Management subsequently concluded that the standards required improvements. These factors have resulted in a lower revenue trajectory in the periods that apply to the earn-out thus reducing the fair value of the earn-out.

The measurement period adjustments are as follows (in thousands):

	Provisional Per 3/31/2016 Form 10Q	Measurement Period Adjustments 2016	Final
Cash paid at closing	\$ 6,000	\$ —	\$ 6,000
Working capital adjustment	(480)	—	(480)
Common stock issued	3,346	—	3,346
Assumed debt	1,771	—	1,771
Fair value of earn-out	25,620	(8,170)	17,450
Total fair value of purchase price	<u>\$ 36,257</u>	<u>\$ (8,170)</u>	<u>\$ 28,087</u>
Net assets acquired:			
Debt-free working capital	\$ 2,179	\$ 277	\$ 2,456
Other assets, net	199	—	199
Property, plant and equipment	1,375	—	1,375
Deferred tax liability	(8,268)	2,372	(5,896)
Subtotal	<u>\$ (4,515)</u>	<u>\$ 2,649</u>	<u>\$ (1,866)</u>
Intangible assets:			
Customer relationships	\$ 6,090	\$ (760)	\$ 5,330
Patents and know-how	9,170	(2,380)	6,790
Trade names and trademarks	830	(380)	450
Non compete agreements	1,080	(250)	830
Licenses and permits	690	(300)	390
Subtotal	<u>17,860</u>	<u>(4,070)</u>	<u>13,790</u>
Goodwill	<u>22,912</u>	<u>(6,749)</u>	<u>16,163</u>
Total Assets Purchased	<u>\$ 36,257</u>	<u>\$ (8,170)</u>	<u>\$ 28,087</u>

Pursuant to the terms of the earn-out arrangement, the Company will pay, for each of the years ending December 31, 2016 and 2017, an amount equal to one times the gross profit margin from (a) the net sales of Stability products sold by Stability's or the Company's sales personnel and (b) the net sales of Company products sold by Stability's sales personnel; provided, however, if the amount of such net sales for either earn-out period is less than \$12 million, the earn-out amount will decrease to 0.5 times the gross profit margin for such earn-out period. The full details of the earn-out arrangement are set forth in the acquisition agreement which is filed as Exhibit 2.1 to the Company's Form 8-K filed on January 13, 2016.

The following unaudited pro forma summary financial information presents the consolidated results of operations for the Company as if the acquisition had occurred on January 1, 2015. The pro forma results are shown for illustrative purposes only and do not purport to be indicative of the results that would have been reported if the acquisition had occurred on the date indicated or indicative of the results that may occur in the future.

Unaudited pro forma information for the twelve months ended December 31, 2016 and 2015 (in thousands) is as follows:

	Years Ended December 31,	
	2016	2015
Revenue	\$245,563	\$204,481
Net income	\$12,611	\$24,960
Income per share, fully diluted	\$0.11	\$0.22



The 2016 supplemental pro forma earnings were adjusted to exclude \$1,088,000 of acquisition-related legal, audit and other costs, net of tax. The 2015 supplemental pro forma earnings were adjusted to include \$1,176,000 of amortization costs (net of tax) related to recorded intangible assets with defined useful lives, and \$1,485,000 of inventory step-up charges (net of tax) as a result of the acquisition for comparability to 2016. The number of shares outstanding used in calculating the income per share for 2015 was adjusted to include 441,009 shares issued as part of the purchase price and assumed to be issued on January 1, 2015.

As the Company is managed and operates in one segment, and since Stability was merged with the Company's existing operations, the Company has determined that disaggregation of the Company's operating results to provide the amount of revenue and earnings for Stability since the acquisition date is impracticable.

## 5. Cash Equivalents and Short Term Investments

Short term investments consisted of approximately \$3,000,000 of FDIC insured certificates of deposit held with various financial institutions as of December 31, 2015. The cost of these instruments approximated their fair market value at December 31, 2015. There were no short term investments as of December 31, 2016.

## 6. Inventories

Inventories consisted of the following items as of December 31, 2016 and 2015 (in thousands):

	December 31,	
	2016	2015
Raw materials	\$ 1,148	\$ 602
Work in process	6,677	3,850
Finished goods	10,817	3,405
Inventory, gross	18,642	7,857
Reserve for obsolescence	(828)	(397)
Inventory, net	<u>\$ 17,814</u>	<u>\$ 7,460</u>

## 7. Property and Equipment

Property and equipment consist of the following as of December 31, 2016 and 2015 (in thousands):

	December 31,	
	2016	2015
Leasehold improvements	\$ 3,274	\$ 2,684
Lab and clean room equipment	8,666	4,564
Furniture and equipment	7,051	4,577
Construction in Progress	3,300	2,629
Property and equipment, gross	22,291	14,454
Less accumulated depreciation	(8,505)	(4,979)
Property and equipment, net	<u>\$ 13,786</u>	<u>\$ 9,475</u>

Included in property and equipment is approximately \$427,000 of capital leases. The corresponding liability of approximately \$31,000 is included in other liabilities in the accompanying consolidated balance sheet. Also included is approximately \$1,000,000 in leasehold improvements paid for by the landlord of our main operating facility with a corresponding liability included in long term liabilities, which is amortized over the term of the lease. As of December 31, 2016 and 2015, the liability was \$188,000 and \$361,000, respectively.

Depreciation expense for the years ended December 31, 2016, 2015, and 2014 was approximately \$3,333,000, \$1,799,000, and \$1,197,000, respectively.

## 8. Intangible Assets and Royalty Agreement

Intangible assets are summarized as follows (in thousands):

	Weighted Average Amortization Lives	December 31,	
		2016	2015
		Cost	Cost
Licenses (a) (b) (c) (d)	7 years	\$ 1,399	\$ 1,009
Patents & Know How (b) (d)	19 years	14,839	8,001
Customer & Supplier Relationships (b) (d)	13 years	9,091	3,761
Tradenames & Trademarks (d)	indefinite	1,458	1,008
Non-Compete Agreements	4 years	830	—
In Process Research & Development (b)	various	25	25
Patents in Process (c)	various	2,618	1,823
Total		30,260	15,627
Less Accumulated amortization and impairment charges		(6,992)	(4,864)
Net		\$ 23,268	\$ 10,763

- (a) On January 29, 2007, the Company acquired a license from Shriners Hospitals for Children and University of South Florida Research Foundation, Inc. in the amount of \$996,000. Within 30 days after the receipt by the Company of approval by the FDA allowing the sale of the first licensed product, the Company is required to pay an additional \$200,000 to the licensor. Due to its contingent nature, this amount is not recorded as a liability. The Company will also be required to pay a royalty of 3% on all commercial sales revenue from the licensed products. The Company is also obligated to pay a \$50,000 minimum annual royalty payment over the life of the license. As of December 31, 2016 the license had a remaining net book value of approximately \$10,000.
- (b) On January 5, 2011, the Company acquired Surgical Biologics, LLC. As a result, the Company recorded intangible assets for Customer & Supplier Relationships of \$3,761,000, Patents & Know-How of \$7,690,000, Licenses of \$13,000, Tradenames & Trademarks of \$1,008,000 and In-Process Research & Development of \$25,000. For the twelve months ended December 31, 2016, approximately \$48,000 of costs associated with patents granted during the period were capitalized and included in Patents & Know-How subject to amortization over the life of the patents.
- (c) Patents in Process consist of capitalized external legal and other registration costs in connection with internally developed tissue-based patents that are pending. Once issued, the costs associated with a given patent will be included in Patents & Know-How under intangible assets subject to amortization.
- (d) On January 13, 2016, the Company acquired Stability. As a result, the Company recorded intangible assets for Patents & Know - How of \$6,790,000, Customer Relationships of \$5,330,000, Non - compete agreements of \$830,000, Tradenames & Trademarks of \$450,000 and Licenses of \$390,000.

Amortization expense for the years ended December 31, 2016, 2015, and 2014, was approximately \$2,127,000, \$933,000, and \$928,000, respectively.

Expected future amortization of intangible assets as of December 31, 2016, is as follows (in thousands):

Year ending December 31,	Estimated Amortization Expense
2017	\$ 2,034
2018	1,829
2019	1,829
2020	1,622
2021	1,622
Thereafter	12,874
	<u>\$ 21,810</u>

## 9. Long-Term Debt

### *Credit Facility*

On October 12, 2015, the Company and its subsidiaries entered into a Credit Agreement (the "Credit Agreement") with certain lenders and Bank of America, N.A., as administrative agent. The Credit Agreement establishes a senior secured revolving credit facility in favor of the Company with a maturity date of October 12, 2018 and an aggregate lender commitment of up to \$50 million. The Credit Agreement also provides for an uncommitted incremental facility of up to \$35 million, which can be exercised as one or more revolving commitment increases or new term loans, all subject to certain customary terms and conditions set forth in the Credit Agreement. The obligations of the Company under the Credit Agreement are guaranteed by the Company's subsidiaries. The obligations of the loan parties under the Credit Agreement and the other credit documents are secured by liens on and security interests in substantially all of the assets of each of the loan parties and a pledge of the equity interests of each subsidiary owned by a loan party, subject to certain customary exclusions. Borrowings under the facility will bear interest at LIBOR plus 1.5% to 2.25%. Fees paid in connection with the initiation of the credit facility totaled approximately \$500,000. These deferred financing costs are being amortized to interest expense over the three-year life of the facility. The Credit Agreement contains customary representations, warranties, covenants, and events of default, including restrictions on certain payments of dividends by the Company. As of December 31, 2016, there were no outstanding revolving loans under the credit facility. As of December 31, 2016, the Company was in compliance with all covenants under the Credit Agreement.

## 10. Net Income Per Share

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

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands except per share data):

	Year Ended December 31,		
	2016	2015	2014
Net income	\$ 11,974	\$ 29,446	\$ 6,220
Denominator for basic earnings per share - weighted average shares	105,928,348	105,929,205	105,793,008
Effect of dilutive securities: Stock options, warrants, and restricted stock (a)	6,513,361	7,699,277	7,502,496
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	112,441,709	113,628,482	113,295,504
Income per common share - basic	\$ 0.11	\$ 0.28	\$ 0.06
Income per common share - diluted	\$ 0.11	\$ 0.26	\$ 0.05

(a) Securities that are included in the computation of the denominator above, utilizing the treasury stock method for the years ended December 31, 2016, 2015 and 2014 are as follows:

Effect of dilutive securities:	2016	2015	2014
Stock Options	5,845,377	7,121,774	7,035,728
Warrants	—	33,676	226,926
Restricted Stock Awards	667,984	543,827	239,842
	6,513,361	7,699,277	7,502,496

## 11. Equity

### Stock Incentive Plans

The Company has four share-based compensation plans which provide for the granting of equity awards, including qualified incentive and non-qualified stock options, stock appreciation awards and restricted stock awards to employees, directors, consultants and advisors: the MiMedx Group, Inc. 2016 Equity and Cash Incentive Plan (the "2016 Plan"), which was approved by shareholders on May 18, 2016; the MiMedx Group, Inc. Assumed 2006 Stock Incentive Plan (the "Assumed 2006 Plan"); the MiMedx Inc. 2007 Assumed Stock Plan (the "Assumed 2007 Plan"); and the MiMedx Group Inc. Amended and Restated Assumed 2005 Stock Plan (the "Assumed 2005 Plan"). The awards are subject to a vesting schedule as set forth in each individual agreement. The Company currently intends to use only the 2016 Plan to make future grants.

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, 2016	14,019,629	\$ 3.62		
Granted	—	\$ —		
Exercised	(1,164,138)	\$ 3.02		
Unvested options forfeited	(154,200)	\$ 6.77		
Vested options expired	(148,683)	\$ 6.16		
Outstanding at December 31, 2016	12,552,608	\$ 3.61	5.4	\$ 66,137,378
Vested at December 31, 2016	11,680,455	\$ 3.33	5.3	\$ 64,733,964
Vested or expected to vest at December 31, 2016 (a)	12,539,865	\$ 3.60	5.4	\$ 66,119,285

(a) Includes forfeiture adjusted unvested shares.

The intrinsic value of the options exercised during the years ended December 31, 2016, 2015 and 2014 were approximately \$6,460,000, \$17,181,000, and \$10,566,000, respectively.

The intrinsic value of options vested during the years ended December 31, 2016, 2015 and 2014 were approximately \$7,378,000, \$10,044,000, and \$6,615,000, respectively.

Following is a summary of stock options outstanding and exercisable at December 31, 2016:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$0.50 - \$0.76	441,429	2.4	\$ 0.72	441,429	\$ 0.72
\$0.87 - \$1.35	4,385,570	4.7	1.19	4,385,570	1.19
\$1.40 - \$2.45	1,362,424	4.1	1.92	1,362,424	1.92
\$2.66 - \$3.99	878,680	5.8	3.06	878,680	3.06
\$4.19 - \$6.38	3,056,069	6.2	5.36	2,937,038	5.34
\$6.45 - \$9.78	2,324,103	7.0	7.30	1,610,485	7.25
\$9.90 - \$10.99	104,333	7.7	10.42	64,829	10.46
	<u>12,552,608</u>	5.4	\$ 3.61	<u>11,680,455</u>	\$ 3.33

A summary of the status of the Company's unvested stock options as of December 31, 2016 is presented below:

Unvested Stock Options	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested at January 1, 2016	3,067,935	\$ 3.81
Granted	—	\$ —
Cancelled	(154,200)	\$ 6.77
Vested	(2,041,582)	\$ 3.61
Unvested at December 31, 2016	872,153	\$ 4.28

Total unrecognized compensation expense at December 31, 2016, was approximately \$1,064,000 and will be charged to expense through June 2017.

The fair value of the options granted was 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 midpoint between the weighted average time to vesting and the contractual maturity. The simplified method was used due to the Company's lack of sufficient historical data to provide a reasonable basis upon which to estimate the expected term due to the limited period of time its equity shares have been publicly traded. 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 granted using the Black-Scholes-Merton option-pricing model are set forth in the following table:

	Year ended December 31,		
	2016	2015	2014
Expected volatility	—%	54.35 - 58.14%	58.14 - 64.50%
Expected life (in years)	0	6	6
Expected dividend yield	—	—	—
Risk-free interest rate	0	1.51 - 1.68%	1.64 - 1.96%

The weighted-average grant date fair value for options granted during the years ended December 31, 2016, 2015 and 2014 were approximately \$0.00, \$5.15 and \$4.18, respectively.

#### **Restricted Stock Awards**

Following is summary information for restricted stock awards for the year ended December 31, 2016. Shares vest over a one to three year period. As of December 31, 2016, there was approximately \$21,905,000 of total unrecognized stock-based compensation related to time-based, non-vested restricted stock. That expense is expected to be recognized on a straight-line basis over a weighted-average period of 1.9 years.

Additionally, during the twelve months ended December 31, 2016, 43,344 shares of common stock valued at approximately \$345,700 were issued under the 2006 Plan to a consultant in return for services performed, and is included in the table that follows.

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2016	2,613,267	\$ 9.14
Granted	2,755,426	\$ 8.05
Vested	(1,162,931)	\$ 8.68
Forfeited	(377,317)	\$ 8.71
Unvested at December 31, 2016	3,828,445	\$ 8.53

For the years ended December 31, 2016, 2015, and 2014 the Company recognized stock-based compensation as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Cost of sales	\$ 426	\$ 352	\$ 322
Research and development	647	790	660
Selling, general and administrative	16,745	15,754	10,471
	\$ 17,818	\$ 16,896	\$ 11,453

## Warrants

On November 18, 2015, 42,400 common stock warrants representing the balance remaining from those granted in connection with equity share purchases by investors as an additional incentive for providing long - term equity capital to the Company and as additional compensation to consultants and advisors were exercised at an exercise price of \$1.09. The warrants were granted at negotiated prices in connection with the equity share purchases and at the market price of the common stock in other instances. The warrants were issued for terms of five years.

## Treasury Stock

On May 12, 2014, our Board of Directors authorized the repurchase of up to \$10 million of our common stock from time to time, through December 31, 2014. The Board subsequently extended the program until December 31, 2017. In December 2014, the Board increased the authorization to \$20 million and further increased the authorization in 2015 to \$60 million. In December 2016, the Board further increased the authorization to \$66 million. The timing and amount of repurchases will depend upon the Company's stock price, economic and market conditions, regulatory requirements, and other corporate considerations. The Company may initiate, suspend or discontinue purchases under the stock repurchase program at any time.

For the year ended December 31, 2016, the Company purchased approximately 1,338,616 shares of its common stock for an aggregate purchase price of approximately \$10,338,000 exclusive of commissions of approximately \$40,000. As of December 31, 2016, the Company had approximately \$9,936,000 remaining under the repurchase program.

## 12. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2016	2015
<b>Deferred tax assets and liabilities:</b>		
Accruals and prepaids	\$ 4,992	\$ 4,606
Intangible assets	(5,130)	146
Property and equipment	(1,338)	(1,396)
R&D and other tax credits	1,219	3,293
Stock Compensation	7,417	7,063
Net operating loss	2,395	1,763
Other	113	145
Net deferred tax assets	<u>\$ 9,668</u>	<u>\$ 15,620</u>
Valuation allowance	(554)	(782)
	<u>\$ 9,114</u>	<u>\$ 14,838</u>

The reconciliation of the Federal statutory income tax rate of 35% to the effective rate is as follows:

	December 31,	
	2016	2015
Federal statutory rate	35.00 %	34.00 %
State taxes, net of federal benefit	4.78 %	3.33 %
Non deductible compensation	0.04 %	0.63 %
Meals & entertainment	3.82 %	2.27 %
Equity Compensation	5.51 %	6.39 %
Domestic Production Activities Deduction	(4.71)%	— %
Tax Credits	(8.79)%	(2.84)%
Prior Period Adjustments	(3.79)%	— %
Other	3.27 %	(1.74)%
Valuation allowance	(1.26)%	(63.33)%
	<u>33.87 %</u>	<u>(21.29)%</u>

Current and deferred income tax expense (benefit) is as follows (in thousands):

	December 31, 2016	December 31, 2015
<b>Current:</b>		
Federal	\$ 4,700	\$ 8,452
State	1,423	1,218
Total current	<u>6,123</u>	<u>9,670</u>
<b>Deferred:</b>		
Federal	26	(13,070)
State	(16)	(1,768)
Total deferred	<u>10</u>	<u>(14,838)</u>
Total expense	<u>\$ 6,133</u>	<u>\$ (5,168)</u>

Income taxes are based on estimates of the annual effective tax rate and evaluations of possible future events and transactions and may be subject to subsequent refinement or revision.



Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefit that, based on available evidence, is not expected to be realized. The Company establishes a valuation allowance for deferred tax assets for which realization is not likely. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets.

As of December 31, 2016, our deferred tax assets were primarily the result of accrued liabilities, equity compensation, tax credits and net operating loss carryforwards. A valuation allowance of \$554,000 and \$782,000 was recorded against our gross deferred tax asset balance as of December 31, 2016, and December 31, 2015, respectively.

At December 31, 2016, the Company had income tax net operating loss ("NOL") carryforwards for federal and state purposes of \$2,327,000 and \$27,912,000 respectively. At December 31, 2015, the Company has income tax net operating loss ("NOL") carryforwards for federal and state purposes of \$579,000 and \$27,552,000 respectively. As of December 31, 2016, the Company has recorded a deferred tax asset for both federal and state NOL carryforwards of approximately \$815,000 and approximately \$1,580,000, respectively. As of December 31, 2015, the Company has recorded a deferred tax asset for both federal and state NOL carryforwards of approximately \$197,000 and approximately \$1,566,000, respectively. The Company's net operating losses and tax credits are subject to annual limitations due to ownership change limitations provided by Internal Revenue Code Section 382. If not utilized, the federal and state tax loss carryforwards will expire between 2027 and 2035. A valuation allowance remains recorded against the deferred tax asset for certain state net operating loss carryovers in the amount of \$554,000 that are not expected to be utilized prior to expiration.

As a result of certain realization requirements of ASC 718, Compensation - Stock Compensation, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation that were greater than the compensation recognized for financial reporting. During 2016, deferred tax assets in the amount of \$1,170,000 were realized resulting in an increase to equity in the same amount. As of December 31, 2016, the Company does not have any remaining deferred tax assets that will result in an increase to equity upon realization. The Company uses ASC 740 ordering when determining when excess tax benefits have been realized.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in thousands):

	December 31, 2016	December 31, 2015
Unrecognized tax benefits - January 1	\$ 170	\$ —
Gross increases - tax positions in current period	111	170
Unrecognized tax benefits - December 31	<u>\$ 281</u>	<u>\$ 170</u>

Included in the balance of unrecognized tax benefits as of December 31, 2016 and December 31, 2015, are \$281,000 and \$170,000, respectively, of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits as of December 31, 2016 and December 31, 2015, are \$281,000 and \$170,000, respectively, of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes. This amount is recorded in Other Liabilities in the accompanying consolidated balance sheets.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company accrued no penalties or interest during 2016, and, in total, as of December 31, 2016 has not recognized any liabilities for penalties or interest. During 2015, we also did not accrue any penalties or interest and, in total, as of December 31, 2015, had not recognized any liability for penalties or interest.

The Company is subject to taxation in the US and various state jurisdictions. As of December 31, 2016 the Company's tax returns for 2013, 2014 and 2015 are subject to examination by the tax authorities. As of December 31, 2016, the Company is generally no longer subject to US federal, state, or local examinations by tax authorities for years before 2013.

### 13. Supplemental Disclosure of Cash Flow and Non-Cash Investing and Financing Activities

Selected cash payments, receipts, and noncash activities are as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Cash paid for interest	\$ 162	\$ 86	\$ 48
Income taxes paid	642	2,293	384
Retirement of fixed assets	—	319	—
Deferred financing costs	10	504	—
APIC related tax adjustments	(424)	7,757	—
Stock issuance of 441,009 shares in connection with acquisition of Stability	3,346	—	—
Stock issuance of 43,344, 16,493 and 15,958 shares in exchange for services performed in 2016, 2015 and 2014, respectively	346	164	117

#### 14. 401k Plan

The Company has a 401(k) plan (the "Plan") covering employees who have attained 21 years of age and have completed three months of service. Under the Plan, participants may defer up to 100% of their eligible wages to a maximum of \$18,000 per year (annual limit for 2015). Employees age 50 or over in 2016 may make additional pre-tax contributions up to \$6,000 above and beyond normal plan and legal limits. Annually, the Company may elect to match employee contributions up to 6% of the employee's compensation. Additionally, the Company may elect to make a discretionary contribution to the Plan. The Company did not provide matching contributions for the years ended December 31, 2016, 2015, and 2014.

#### 15. Related Party Transactions

On January 13, 2016, when the Company completed the acquisition of Stability Inc., d/b/a Stability Biologics ("Stability") there was an assumed payable of \$5,954,555 to a related party. The Company made payments of \$1,361,030 during 2016. The payable was further reduced by \$3,367,250 as a result of the return or destruction of expired inventory. The outstanding payable at 12/31/16 is \$1,226,275 and is included in Accounts Payable. The related party is a limited liability company that is controlled by a former stockholder of Stability Inc. who is now an employee of the Company.

#### 16. Commitments and Contingencies

##### ***Contractual Commitments***

In addition to the capital leases noted under Property and Equipment (Note 7), the Company has entered into operating lease agreements for facility space and equipment. These leases expire over the next eight years and generally contain renewal options. The Company anticipates that most of these leases will be renewed or replaced upon expiration. The Company also has commitments for meeting space.

The estimated annual lease payment and meeting space commitments are as follows (in thousands):

	Year ended December 31,	
2017	\$	2,827
2018		3,079
2019		2,023
2020		490
2021		141
Thereafter		374
	\$	<u>8,934</u>

Rent expense for the years ended December 31, 2016, 2015 and 2014, was approximately \$1,764,000, \$1,317,000 and \$1,130,000, respectively, and is allocated among cost of sales, research and development, and selling, general and administrative expenses.

##### ***Letters of Credit***

As a condition of the leases for the Company's facilities, we are obligated under standby letters of credit in the amount of approximately \$103,000. These obligations are reduced at various times over the lives of the leases.

##### ***FDA Untitled Letter, Draft Guidance and Related Litigation***

###### FDA Untitled Letter and Draft Guidance

On August 28, 2013, the FDA issued an Untitled Letter alleging that the Company's micronized allografts do not meet the criteria for regulation solely under Section 361 of the Public Health Service Act and that, as a result, MiMedx would need a biologics license to lawfully market those micronized products. Since the issuance of the Untitled Letter, the Company has been in discussions with the FDA to communicate its disagreement with the FDA's assertion that the Company's allografts are more than minimally manipulated. To date, the FDA has not changed its position that the Company's micronized products are not eligible for marketing solely under Section 361 of the Public Health Service Act. The Company continues to market its micronized products but is also pursuing the Biologics License Application ("BLA") process for certain of its micronized products.

On December 22, 2014, the FDA issued for comment “Draft Guidance for Industry and FDA Staff: Minimal Manipulation of Human Cells, Tissues, and Cellular and Tissue-Based Products.” Essentially the Minimal Manipulation draft guidance takes the same position with respect to micronized amniotic tissue that it took in the Untitled Letter to MiMedx 16 months earlier. The Company submitted comments asserting that the Minimal Manipulation draft guidance represents agency action that goes far beyond the FDA’s statutory authority, is inconsistent with existing HCT/P regulations and the FDA’s prior positions, and is internally inconsistent and scientifically unsound.

On October 28, 2015, the FDA issued for comment, "Draft Guidance for Industry and FDA Staff: Homologous Use of Human Cells, Tissues, and Cellular and Tissue-Based Products." The Company submitted comments on this Homologous Use draft guidance as well. On September 12 and 13, 2016, the FDA held a public hearing to obtain input on the Homologous Use draft guidance and the previously released Minimal Manipulation draft guidance, as well as other recently issued guidance documents on HCT/Ps. The Company awaits further decision from FDA on the draft guidances, but anticipates this will be a lengthy process.

If the FDA does allow the Company to continue to market a micronized form of its sheet allografts without a biologics license either prior to or after finalization of the draft guidance documents, it may impose conditions, such as labeling restrictions and compliance with cGMP. Although the Company is preparing for these requirements in connection with its pursuit of a BLA for certain of its micronized products, earlier compliance with these conditions requires significant additional time and cost investments by the Company. It is also possible that the FDA will not allow the Company to market any form of a micronized product without a biologics license even prior to finalization of the draft guidance documents and could even require the Company to recall its micronized products. Revenues from micronized products comprised approximately 10% of the Company’s revenues in 2016.

#### Securities Class Action

Following the publication of the Untitled Letter from the FDA regarding the Company’s micronized products in September 2013, the trading price of the Company’s stock declined and several putative shareholder class action lawsuits were filed against the Company and certain of its executive officers asserting violations of the Securities Exchange Act of 1934. The cases were consolidated in the United States District Court for the Northern District of Georgia. On November 17, 2015, the parties entered into a stipulation of settlement to settle the consolidated case in its entirety. The stipulation of settlement was filed with the Court on November 18, 2015. On November 19, 2015, the Court preliminarily approved the settlement and confirmed the settlement on April 5, 2016. The settlement amount was paid by the Company’s insurance carrier.

#### **Former Employee Litigation**

On December 13, 2016, the Company filed lawsuits against former employees Jess Kruchoski (in the lawsuit styled *MiMedx Group, Inc. v. Academy Medical, LLC, et. al.* in the County Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida (the “Florida Action”)) and Luke Tornquist (in the lawsuit styled *MiMedx Group, Inc., v. Luke Tornquist* in the Superior Court for Cobb County, Georgia, which was removed to the United States District Court for the Northern District of Georgia (the “Georgia Action”)). Both the Florida and Georgia Actions assert claims against Messrs. Kruchoski and Tornquist that each of them violated their restrictive covenants entered into with the Company, that each of them misappropriated trade secrets of the Company, that each of them tortiously interfered with contracts between the Company and its customers and employees, and that each of them breached his duty of loyalty owed to the Company, among other claims.

On December 15, 2016, Messrs. Kruchoski and Tornquist filed a lawsuit in the United States District Court of Minnesota (the “Minnesota Action”) against the Company and the Company’s Chairman and Chief Executive Officer, Parker Petit. The plaintiffs in this lawsuit each claimed that their employment with the Company was terminated in retaliation for their complaints about the Company’s alleged business practices in violation of the Dodd-Frank Act, 15 U.S.C. § 78u-6(h); and was an unlawful discharge in violation of Minnesota Statutes Section 181.931 subdivision 1. Mr. Kruchoski also claimed that the termination of his employment with the Company constituted marital status discrimination and familial status discrimination in violation of the Minnesota Human Rights Act. Messrs. Kruchoski and Tornquist also claimed that Mr. Petit tortiously interfered with their employment relationships with the Company.

On January 26, 2017, the Company and Mr. Petit filed motions to dismiss the Minnesota Action. In response, Messrs. Kruchoski and Tornquist voluntarily dismissed the Minnesota Action without prejudice on February 7, 2017. On February 7, 2017, Mr. Tornquist filed his Answer and Counterclaims in the Georgia Action wherein he asserted claims similar to those he had asserted in the Minnesota Action, with the exception that he did not include a claim of tortious interference against Mr. Petit. On February 15, 2017, Mr. Kruchoski filed a new lawsuit in Georgia against MiMedx and Mr. Petit, making many of the

same allegations in that suit as were made in the Minnesota suit, with the addition of claims against the Company and Mr. Petit for defamation.

The Company intends to vigorously pursue its claims asserted in the Florida and Georgia Actions and also to vigorously defend against the lawsuits and counterclaims asserted against them.

### ***Patent Litigation***

MiMedx continues to diligently enforce its intellectual property against several entities. Currently, there are four actions pending, as described below:

#### **The Liventa Action**

On April 22, 2014, the Company filed a patent infringement lawsuit in the United States District Court for the Northern District of Georgia against Liventa Bioscience, Inc. ("Liventa"), Medline Industries, Inc. ("Medline") and Musculoskeletal Transplant Foundation, Inc. ("MTF") for permanent injunctive relief and unspecified damages (the "Liventa Action"). In addition to the allegations of infringement of MiMedx's patents, the lawsuit asserts that Liventa and Medline knowingly and willfully made false and misleading representations about their respective products to providers, patients, and in some cases, prospective investors. Though the terms of the agreement are confidential, the parties have reached a settlement of the false advertising claims for an undisclosed sum. The patent infringement claims are still pending as described below.

MiMedx asserts that Liventa (formerly known as AFCCell Medical, Inc.), Medline and MTF infringed and continue to infringe certain of the Company's patents relating to the MiMedx dehydrated human amnion/chorion membrane ("dHACM") allografts. MTF is the tissue processor while Liventa and Medline are the distributors of the allegedly infringing products. On May 30, 2014, defendants filed answers to the Complaint, denying the allegations in the Complaint. They also raised affirmative defenses of non-infringement, invalidity, laches and estoppel. MTF and Medline also filed counterclaims seeking declaratory judgments of non-infringement and invalidity. Defendants filed parallel Inter Partes Review ("IPR") proceedings which are discussed below. We expect the case to go to trial in 2017.

#### **The Bone Bank Action**

On May 16, 2014, the Company also filed a patent infringement lawsuit against Transplant Technology, Inc. d/b/a Bone Bank Allografts ("Bone Bank") and Texas Human Biologics, Ltd. ("Biologics") for permanent injunctive relief and unspecified damages (the "Bone Bank Action"). The Bone Bank Action was filed in the United States District Court for the Western District of Texas. This lawsuit similarly asserts that Bone Bank and Biologics infringed certain of the Company's patents through the manufacturing and sale of their placental-derived tissue graft products. On July 10, 2014, Defendants filed an answer to the Complaint, denying the allegations in the Complaint. They also raised affirmative defenses of non-infringement and invalidity and filed counterclaims seeking declaratory judgments of non-infringement and invalidity. Defendants also filed parallel IPR proceedings which are further discussed below. Discovery is closed and we expect the case to go to trial in 2017.

#### **The NuTech Action**

On March 2, 2015, the Company filed a patent infringement lawsuit against NuTech Medical, Inc. ("NuTech") and DCI Donor Services, Inc. ("DCI") for permanent injunctive relief and unspecified damages. This lawsuit was filed in the United States District Court for the Northern District of Alabama. The lawsuit alleges that NuTech and DCI have infringed and continue to infringe the Company's patents through the manufacture, use, sale, and/or offering of their tissue graft product. The lawsuit also asserts that NuTech knowingly and willfully made false and misleading representations about its products to customers and/or prospective customers. The case is currently in the discovery phase.

#### **The Vivex Action**

On April 1, 2016, the Company also filed a patent infringement lawsuit against Vivex BioMedical ("Vivex") for permanent injunctive relief and unspecified damages (the "Vivex Action"). The lawsuit was filed in the United States District Court for the Northern District of Georgia. The patent at issue is the 8,709,494 patent (the "494" patent). Vivex answered the Company's complaint and filed counterclaims of non-infringement and invalidity. On January 4, 2017, the Court granted a joint motion to stay the proceedings pending the outcome of the Bone Bank Action.

### ***Pending IPRs***

In addition to defending the claims in the pending district court litigations, defendants in the Liventa and Bone Bank cases have challenged certain of the Company's patents in several IPR proceedings to avoid the high burden of proof of proving invalidity by "clear and convincing evidence" in the district court litigations. An inter partes review (or "IPR") is a request for a specialized group within the United States Patent and Trademark Office to review the validity of a plaintiff's patent claims. The defendants in the Bone Bank Action challenged the validity of the Company's 8,597,687 (the "687" patent) and the '494 patent; while the defendants in the Liventa Action challenged the validity of the Company's 8,372,437 and 8,323,701 patents (the "'437" and "'701" patents, respectively).

On June 29, 2015, the Patent Trial and Appeals Board ("PTAB") denied the Bone Bank defendants' request for institution of an IPR with respect to the '494 patent (EpiFix) on all seven challenged grounds. On August 18, 2015, the PTAB also denied the Liventa defendants' request for institution of an IPR with respect to the '701 patent (AmnioFix) on all six challenged grounds. That is, the PTAB decided in each case that the defendants failed to establish a reasonable likelihood that defendants would prevail in showing any of the challenged claims of the '494 or the '701 patent were unpatentable.

On July 10, 2015, the PTAB issued an opinion allowing a review of the '687 patent to proceed, although on only two of the five challenged grounds. On July 7, 2016, the PTAB issued an opinion finding that the challenged claims, which relate to embossment and not configuration, were invalid for obviousness. The Company decided not to appeal the decision, as it impacted a non-core patent. On August 18, 2015, the PTAB issued an opinion allowing a review of the '437 patent to proceed, although only on one of the seven challenged grounds. On August 16, 2016, the PTAB issued an opinion finding that the challenged claims were unpatentable. MiMedx has filed an appeal of the PTAB's decision regarding the '437 patent.

17. Quarterly Financial Data (Unaudited) (in thousands except per share data)

			First Quarter	Second Quarter	Third Quarter	Fourth Quarter
NET SALES	2016	\$	53,367	\$ 57,342	\$ 64,429	\$ 69,877
	2015		40,767	45,679	49,015	51,835
GROSS MARGIN	2016	\$	45,421	\$ 49,948	\$ 56,432	\$ 60,807
	2015		35,619	40,590	44,036	46,849
NET INCOME	2016	\$	1,197	\$ 1,975	\$ 3,321	\$ 5,481
	2015		4,087	5,430	6,551	13,378
NET INCOME PER COMMON SHARE - BASIC	2016	\$	0.01	\$ 0.02	\$ 0.03	\$ 0.05
	2015		0.04	0.05	0.06	0.13
NET INCOME PER COMMON SHARE - DILUTED	2016	\$	0.01	\$ 0.02	\$ 0.03	\$ 0.05
	2015		0.04	0.05	0.06	0.11

## 18. Product Revenue Data

We group our products into two categories: Wound Care and Surgical, Sports Medicine & Orthopedics (SSO) for purposes of the required disclosure under ASC 280-10-50-40. This grouping of products does not constitute a basis for resource allocation but is information intended to provide the reader with ability to better understand the Company's product categories. These groupings also do not meet the criteria under ASC 280-10-50-1 as separate segments.

Net Sales by Categories (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Wound Care	\$ 183,984	\$ 141,096	\$ 93,623
Surgical, Sports Medicine & Orthopedics (SSO)	61,031	46,200	24,600
Total	<u>\$ 245,015</u>	<u>\$ 187,296</u>	<u>\$ 118,223</u>

## 19. Subsequent Events

The Board of Directors in February 2017 authorized an increase of \$20 million to the Company's Share Repurchase Program. This action brings the total amount authorized to \$86 million since the Share Repurchase Program commenced in May 2014.

### Schedule II Valuation and Qualifying Accounts

#### MIMEDX GROUP, INC. AND SUBSIDIARIES SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Years ended December 31, 2016, 2015 and 2014 (in thousands)

	Balance at Beginning of Year	Additions charged to Expense or Revenue	Deductions and write-offs	Balance at End of Year
For the Year ended December 31, 2016				
Allowance for doubtful accounts	\$ 3,270	\$ 2,127	\$ (555)	\$ 4,842
Allowance for product returns	1,262	8,319	(4,687)	4,894
Allowance for obsolescence	397	2,280	(1,849)	828
For the Year ended December 31, 2015				
Allowance for doubtful accounts	\$ 1,750	\$ 1,698	\$ (178)	\$ 3,270
Allowance for product returns	841	3,257	(2,836)	1,262
Allowance for obsolescence	527	540	(670)	397
For the Year ended December 31, 2014				
Allowance for doubtful accounts	\$ 407	\$ 1,357	\$ (14)	\$ 1,750
Allowance for product returns	215	2,215	(1,589)	841
Allowance for obsolescence	322	405	(200)	527



## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures” within the meaning of Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, or the “Exchange Act”. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in the reports filed under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. Our disclosure controls and procedures include controls and procedures designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and no evaluation of controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, prior to filing this Annual Report on Form 10-K, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our reporting and disclosure controls and procedures were not effective as a result of the material weakness in our internal control over financial reporting discussed below.

Changes in internal controls: There were no changes in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Material weakness: In reviewing the Company’s tax accounting in preparation for filing this Form 10-K, our management identified a deficiency in our internal control over financial reporting that is described below in Management’s Annual Report on Internal Control Over Financial Reporting. Our management has concluded that this deficiency constitutes a material weakness in our internal control over financial reporting related to our accounting for income taxes. This material weakness did not result in a material misstatement of the Company’s annual financial statements for the year ended December 31, 2016. However, management concluded that this material weakness, if un-remediated, could have resulted in a material misstatement of the Company’s annual or interim consolidated financial statements that would not have been prevented or detected by our internal controls. Accordingly, management determined that this control deficiency constituted a material weakness. We have developed a remediation plan for this material weakness, which is described below.

#### Management’s Annual Report on Internal Control Over Financial Reporting

Our management, including our principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, our management has concluded that our internal control over financial reporting was not effective as of December 31, 2016, due to the material weakness in our internal control over financial reporting related to our accounting for income taxes. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In reviewing the Company’s tax accounting in preparation for filing this Form 10-K, management concluded the Company had a material weakness in the design of our internal control over the tax accounting related to an overstatement of an excess tax benefit which, if undetected could have resulted in an understatement of income taxes payable. Specifically, management did not have adequate supervision and review of certain technical tax accounting performed by a third party tax specialist in 2016. This was identified during the audit process prior to preparation of the Company’s financial statements and, therefore did not result in a material misstatement of the Company’s annual financial statements for the year ended December 31, 2016 or any of our previously issued annual or interim consolidated financial

statements. This material weakness, if undetected, could have resulted in an understatement of income taxes payable, resulting in a material misstatement of the Company's annual consolidated financial statements that would not have been prevented or detected by its internal controls.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by Cherry Bekaert LLP, an independent registered public accounting firm, as stated in their report which appears in Item 8 of this Annual Report on Form 10-K.

Remediation Plan: Management has begun implementing a remediation plan to address the control deficiency that led to the material weakness. The remediation plan includes the following:

- Implementing specific review procedures, including the increased involvement of our CFO and Controller as well as the hiring of an internal tax specialist to oversee the work performed by the third - party tax specialists.
- Strengthening our income tax control with improved documentation standards, technical oversight, and training.

When fully implemented and operational, we believe the measures described above will remediate the material weakness we have identified and generally strengthen our internal control over financial reporting. We currently plan to have our enhanced review procedures and documentation standards in place and operating in the first quarter of 2017. Our goal is to remediate this material weakness by the end of the first quarter of 2017, subject to there being sufficient opportunities to conclude, through testing, that the enhanced control is operating effectively.

Cherry Bekaert LLP, an independent registered accounting firm, as auditors of our financial statements have issued an attestation report on the effectiveness of the Company's and its subsidiaries' internal control over financial reporting as of December 31, 2016. Cherry Bekaert LLP's report is included in this report.

**Item 9B. Other Information**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information required by this Item will be contained in our definitive proxy statement relating to our 2017 Annual Meeting of Shareholders under the captions "Executive Officers," "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," or similar captions which are incorporated herein by reference.

We have adopted our "Code of Business Conduct and Ethics" and a copy is posted on our website at [www.mimedx.com](http://www.mimedx.com). In the event that we amend any of the provisions of this Code of Business Conduct and Ethics that require disclosure under applicable law, SEC rules or listing standards, we intend to disclose such amendment on our website.

Any waiver of the Code of Business Conduct and Ethics for any executive officer or director must be approved by the Board and will be disclosed on a Form 8-K filed with the SEC, along with the reasons for the waiver.

### **Item 11. Executive Compensation**

Information required by this Item will be contained in our definitive proxy statement relating to our 2017 Annual Meeting of Shareholders under the caption "Executive Compensation," or similar caption which is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

Information required by this Item will be contained in our definitive proxy statement relating to our 2017 Annual Meeting of Shareholders under the captions "Stock Ownership," "Executive Compensation," and "Equity Compensation Plan Information," or similar captions which are incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information required by this Item will be contained in our definitive proxy statement relating to our 2017 Annual Meeting of Shareholders under the captions "Certain Relationships and Related Party Transactions," and "Election of Directors" or similar captions which are incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

Information required by this Item will be contained in our definitive proxy statement relating to our 2017 Annual Meeting of Shareholders under the captions "Ratification of Appointment of Independent Registered Public Accounting Firm" and "Election of Directors," or similar captions which are incorporated herein by reference.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a) Documents filed as part of this report:

- (1) Financial Statements
- (2) Financial Statement Schedule:

The following Financial Statement Schedule is filed as part of this Report:

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2016, 2015 and 2014

- (3) Exhibits

See Item 15(b) below. Each management contract or compensation plan has been identified.

(b) Exhibits

<b>Exhibit Number</b>	<b>Description</b>
2.1##	Agreement and Plan of Merger dated December 22, 2010 by and among MiMedx Group, Inc., MP Holdings Acquisition Sub, LLC, ORCI Acquisition Sub, LLC, Membrane Products Holdings, LLC, Onramp Capital Investments, LLC, each of the OnRamp Members (as defined therein); John R. Daniel, in his capacity as the representative of the Members and Surgical Biologics, LLC (Incorporated by reference to Exhibit 2.2 filed with Registrant's Form 10-K filed on March 31, 2011)
2.2##	Agreement and Plan of Merger dated January 10, 2016, by and among MiMedx Group, Inc., Titan Acquisition Sub I, Inc., Titan Acquisition Sub II, LLC, Stability Inc., certain stockholders of Stability Inc. and Brian Martin as representative of the Stability stockholders (Incorporated by reference to Exhibit 2.1 filed with Registrant's Form 8-K filed on January 13, 2016)
3.1#	Articles of Incorporation of MiMedx Group, Inc., as amended by Articles of Amendment to Articles of Incorporation filed on May 14, 2010, Articles of Amendment to Articles of Incorporation filed on August 8, 2012, Articles of Amendment to Articles of Incorporation filed on November 8, 2012, and Articles of Amendment to Articles of Incorporation filed on May 15, 2015
3.2#	Bylaws of MiMedx Group, Inc., as amended as of December 14, 2016
10.1*	MiMedx Group, Inc. 2006 Assumed Stock Incentive Plan, as amended and restated effective February 25, 2014 (Incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on March 3, 2014)
10.2*	Form of Restricted Stock Agreement for Non-Employee Directors under the MiMedx Group, Inc. 2006 Assumed Stock Incentive Plan (Incorporated by reference to Exhibit 10.66 to the Registrant's Form 10-Q filed on August 8, 2013)
10.3*	Form of Restricted Stock Agreement under the MiMedx Group, Inc. 2006 Assumed Stock Incentive Plan (Incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-K filed on March 4, 2014)
10.4*	Form of Incentive Stock Option Agreement under the MiMedx Group, Inc. 2006 Assumed Stock Incentive Plan (Incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-K filed on March 4, 2014)
10.5*	Form of Nonqualified Stock Option Agreement under the MiMedx Group, Inc. 2006 Assumed Stock Incentive Plan (Incorporated by reference to Exhibit 10.5 to the Registrant's Form 10-K filed on March 4, 2014)
10.6*	MiMedx, Inc. 2005 Assumed Stock Plan, formerly the SpineMedica Corp. 2005 Employee, Director and Consultant Stock Plan (Incorporated by reference to Exhibit 10.5 filed with the Registrant's Form 8-K filed February 8, 2008)
10.7*	Declaration of Amendment to the MiMedx, Inc. 2005 Assumed Stock Plan (formerly the SpineMedica Corp. 2005 Employee, Director and Consultant Stock Plan) (Incorporated by reference to Exhibit 10.6 filed with the Registrant's Form 8-K filed February 8, 2008)

10.8*	Form of Incentive Stock Option Award Agreement under the MiMedx, Inc. Assumed 2005 Stock Plan (formerly the SpineMedica Corp. 2005 Employee, Director and Consultant Stock Plan), including a list of officers and directors receiving options thereunder (Incorporated by reference to Exhibit 10.7 filed with the Registrant's Form 8-K filed February 8, 2008)
10.9*	Form of Nonqualified Stock Option Award Agreement under the MiMedx, Inc. Assumed 2005 Stock Plan (formerly the SpineMedica Corp. 2005 Employee, Director and Consultant Stock Plan) (Incorporated by reference to Exhibit 10.8 filed with the Registrant's Form 8-K filed February 8, 2008)
10.10*	MiMedx, Inc. Assumed 2007 Stock Plan (formerly the SpineMedica Corp. 2007 Stock Incentive Plan) (Incorporated by reference to Exhibit 10.9 filed with the Registrant's Form 8-K filed February 8, 2008)
10.11*	Declaration of Amendment to the MiMedx, Inc. Assumed 2007 Stock Plan (formerly the SpineMedica Corp. 2007 Stock Incentive Plan) (Incorporated by reference to Exhibit 10.10 filed with the Registrant's Form 8-K filed February 8, 2008)
10.12*	Form of Incentive Stock Option Award Agreement under the MiMedx, Inc. Assumed 2007 Stock Plan (formerly the SpineMedica Corp. 2007 Stock Incentive Plan) (Incorporated by reference to Exhibit 10.11 filed with the Registrant's Form 8-K filed February 8, 2008)
10.13*	Form of Nonqualified Stock Option Award Agreement under the MiMedx, Inc. Assumed 2007 Stock Plan (formerly the SpineMedica Corp. 2007 Stock Incentive Plan) (Incorporated by reference to Exhibit 10.12 filed with the Registrant's Form 8-K filed February 8, 2008)
10.14*	Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.65 filed with the Registrant's Form 8-K filed July 15, 2008)
10.15*	MiMedx Group, Inc. Amended and Restated Assumed 2005 Stock Plan (Incorporated by reference to Exhibit 10.4 filed with the Registrant's Form S-8 filed August 29, 2008)
10.16*	Form of Incentive Stock Option Award Agreement under MiMedx Group, Inc. Amended and Restated Assumed 2005 Stock Plan (Incorporated by reference to Exhibit 10.68 filed with the Registrant's Form 8 -K filed September 4, 2008)
10.17*	Form of Nonqualified Stock Option Award Agreement under MiMedx Group, Inc. Amended and Restated Assumed 2005 Stock Plan (Incorporated by reference to Exhibit 10.69 filed with the Registrant's Form 8 -K filed September 4, 2008)
10.18	Form of MiMedx, Inc. Employee Proprietary Information and Inventions Assignment Agreement (Incorporated by reference to Exhibit 10.13 filed with the Registrant's Form 8-K filed February 8, 2008)
10.19	Technology License Agreement between MiMedx, Inc., Shriners Hospitals for Children, and University of South Florida Research Foundation dated January 29, 2007 (Incorporated by reference to Exhibit 10.32 filed with the Registrant's Form 8-K filed February 8, 2008)
10.20	Form of Amended and Restated Security and Intercreditor Agreement (Incorporated by reference to Exhibit 10.6 filed with Registrant's Form 8-K filed January 3, 2012)
10.21*	Change of Control Agreement Severance Compensation and Restrictive Covenant Agreement dated November 11, 2011, between MiMedx Group, Inc. and Parker H. Petit (Incorporated by reference to Exhibit 10.91 filed with Registrant's Form 10-Q filed on November 14, 2011)
10.22*	Change of Control Agreement Severance Compensation and Restrictive Covenant Agreement dated November 11, 2011, between MiMedx Group, Inc. and with William C. Taylor (Incorporated by reference to Exhibit 10.92 filed with Registrant's Form 10-Q filed on November 14, 2011)
10.23*	First Amendment to Change in Control Severance Compensation and Restrictive Covenant Agreement dated May 9, 2013 by and between MiMedx Group, Inc., and William C. Taylor (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 15, 2013)

10.24*	Change of Control Agreement Severance Compensation and Restrictive Covenant Agreement dated November 11, 2011, between MiMedx Group, Inc., and Michael J. Senken (Incorporated by reference to Exhibit 10.93 filed with Registrant's Form 10-Q filed on November 14, 2011)
10.25*	First Amendment to Change in Control Severance Compensation and Restrictive Covenant Agreement dated May 9, 2013 by and between MiMedx Group, Inc., and Michael J. Senken (Incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on May 15, 2013)
10.26*	Change in Control Severance Compensation and Restrictive Covenant Agreement dated May 20, 2016 by and between MiMedx Group, Inc., and Alexandra O. Haden (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on May 25, 2016)
10.27*	2013 Management Incentive Plan and 2013 Operating Incentive Plan (Incorporated by reference to Exhibit 10.1 filed with Registrant's Form 8-K filed March 12, 2013)
10.28*	2014 Management Incentive Plan and 2014 Operating Incentive Plan (Incorporated by reference to Exhibit 10.1 filed with Registrant's Form 8-K filed March 3, 2014)
10.29*	2015 Management Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed on May 1, 2015)
10.30*	2016 Management Incentive Plan
10.31**	Product Distribution Agreement by and between AvKARE, Inc. and MiMedx Group, Inc. dated April 19, 2012 (Incorporated by reference to Exhibit 10.56 to the Registrant's Form 10-K filed March 15, 2013)
10.32	First Amendment to Product Distribution Agreement amending that certain Product Distribution Agreement that was effective April 19, 2012 (Incorporated by reference to Exhibit 10.56 filed with the Registrant's Form 10-Q filed on November 8, 2013)
10.33**	Second Amendment to Product Distribution between MiMedx Group, Inc. and AvKARE, Inc. (Incorporated by reference to Exhibit 10.58 filed with the Registrant's Form 10-Q filed on November 8, 2013)
10.34**	Third Amendment to Product Distribution Agreement dated April 17, 2015 between MiMedx Group, Inc. and AvKARE, Inc. (Incorporated by reference to Exhibit 10.2 to the Company's 10-Q filed on August 7, 2015)

10.35**	Fourth Amendment to Product Distribution Agreement dated January 1, 2016 between MiMedx Group, Inc. and AvKARE, Inc. (Incorporated by reference to Exhibit 10.2 to the Company's 10-Q filed on May 10, 2016)
10.36	Lease by and between Hub Properties of GA, LLC and MiMedx Group, Inc., effective May 1, 2013 (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed May 10, 2013)
10.37	Credit Agreement dated October 12, 2015, among MiMedx Group, Inc., the Guarantors identified therein, Bank of America, N.A., and the other Lenders party thereto (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on October 13, 2015)
10.38	First Amendment to the Credit Agreement dated October 12, 2015, by and among MiMedx Group, Inc., the Guarantors identified therein, Bank of America, N.A. and the other Lenders party thereto (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on January 13, 2016)
10.39	Security and Pledge Agreement dated October 12, 2015, among MiMedx Group, Inc., the Guarantors identified therein and Bank of America, N.A., as administrative agent (Incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed on October 13, 2015)
10.40*	2016 Equity and Cash Incentive Plan (Incorporated herein by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 12, 2016)
10.41*	Form of Incentive Stock Option Agreement under the MiMedx Group, Inc. 2016 Equity and Cash Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed August 2, 2016)
10.42*	Form of Restricted Stock Agreement under the MiMedx Group, Inc. 2016 Equity and Cash Incentive Plan (Incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q filed August 2, 2016)
10.43*	Form of Nonqualified Stock Option Agreement under the MiMedx Group, Inc. 2016 Equity and Cash Incentive Plan (Incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-Q filed August 2, 2016)
21.1#	Subsidiaries of MiMedx Group, Inc.
23.1#	Consent of Independent Registered Public Accounting Firm
31.1#	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Acts of 2002
31.2#	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Acts 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
101.INS#	XBRL Instance Document
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document

**Notes**

- \* Indicates a management contract or compensatory plan or arrangement
- # Filed herewith
- \*\* Certain confidential material appearing in this document, marked by [\*\*\*\*\*], has been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment under rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.
- ## Certain exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K, but a copy will be furnished supplementally to the Securities and Exchange Commission upon request.



**Item 16. Form 10-K Summary**

Not applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

March 1, 2017

MIMEDX GROUP, INC.

By: /s/ Michael J. Senken

Michael J. Senken

Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature / Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/: Parker H. Petit</u> Parker H. Petit	Chief Executive Officer and Chairman (principal executive officer)	March 1, 2017
<u>/s/: Michael J. Senken</u> Michael J. Senken	Chief Financial Officer (principal financial and accounting officer)	March 1, 2017
<u>/s/: Joseph G. Bleser</u> Joseph G. Bleser	Director	March 1, 2017
<u>/s/: J. Terry Dewberry</u> J. Terry Dewberry	Director	March 1, 2017
<u>/s/: Charles Evans</u> Charles Evans	Director	March 1, 2017
<u>/s/: Bruce Hack</u> Bruce Hack	Director	March 1, 2017
<u>/s/: Charles E. Koob</u> Charles E. Koob	Director	March 1, 2017
<u>/s/: Larry W. Papasan</u> Larry W. Papasan	Director	March 1, 2017
<u>/s/: William C. Taylor</u> William C. Taylor	Director	March 1, 2017
<u>/s/: Neil Yeston</u> Neil Yeston	Director	March 1, 2017

**ARTICLES OF INCORPORATION  
OF  
MIMEDX GROUP, INC.**

**Article 1. Name.** The name of the Corporation is **MIMEDX GROUP, INC.**

**Article 2. State of Organization.** The Corporation is organized pursuant to the provisions of the Florida Business Corporation Act (the "Act").

**Article 3. Capital Stock.** The total number of shares of stock which the Corporation shall have authority to issue is not more than 105,000,000 shares of capital stock, of which 100,000,000 shares shall be designated "Common Stock," at \$.001 par value per share, and 5,000,000 shares shall be designated as "Preferred Stock," at \$.001 par value per share.

The designations and the preferences, conversion and other rights, voting powers, restrictions, provisions as to dividends, qualifications, redemption rights and other terms and conditions of the shares of each class of stock are as follows:

**3.1 Preferred Stock.** The Preferred Stock may be issued from time to time by the Board of Directors as shares of one or more series. The description of shares of each series of Preferred Stock, including any preferences, conversion and other rights, voting powers, restrictions, provisions as to dividends, qualifications, redemption rights and any other terms and conditions shall be as set forth in resolutions adopted by the Board of Directors, and articles of amendment to these Articles of Incorporation shall be filed with the Department of State of the State of Florida as required by law to be filed with respect to the issuance of such Preferred Stock, prior to the issuance of any shares of such series.

The Board of Directors is expressly authorized, at any time, by adopting resolutions providing for the issuance of, or providing for a change in the number of, shares of any particular series of Preferred Stock and, if and to the extent from time to time required by law, by filing articles of amendment to these Articles of Incorporation which are effective without shareholder action, to increase or decrease the number of shares included in each series of Preferred Stock, but not below the number of shares then issued, and to set or change in any one or more respects the designations, preferences, conversion or other rights, voting powers, restrictions, provisions as to dividends, qualifications, redemption rights or other terms and conditions relating to the shares of each such series. The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, setting or changing the following:

- (a) the annual dividend rate, if any, on shares of such series, the times of payment and the date from which dividends shall be accumulated, if dividends are to be cumulative;
- (b) whether the shares of such series shall be redeemable and, if so, the redemption price and the terms and conditions of such redemption;
- (c) the obligation, if any, of the Corporation to redeem shares of such series pursuant to a sinking fund;
- (d) whether shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes and, if so, the terms and conditions of such conversion or exchange, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;
- (e) whether the shares of such series shall have voting rights, in addition to the voting rights provided by law, and, if so, the extent of such voting rights;
- (f) the rights of the shares of stock series in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation; and
- (g) any other relative rights, powers, preferences, qualifications, limitations or restrictions thereof relating to such series.

**3.2 Common Stock.** Subject to all of the rights of the Preferred Stock as expressly provided herein, by law or by the Board of Directors pursuant to this Article 3, the Common Stock of the Corporation shall possess all such rights and privileges as are afforded to capital stock by applicable law, including, but not limited to, the following rights and privileges:

- (a) dividends may be declared and paid or set apart for payment upon the Common Stock out of any assets or funds of the Corporation legally available for the payment of dividends;
- (b) the holders of Common Stock shall have the right to vote for the election of Directors and on all other matters requiring shareholder action, each share being entitled to one vote; and

(c) upon the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the net assets of the Corporation available for distribution shall be distributed pro rata to the holders of the Common Stock in accordance with their respective rights and interests.

**Article 5. Principal Office.** The initial principal office of the Corporation shall be at 1234 Airport Road, Suite 105, Destin, Okaloosa County, Florida 32541.

**Article 6. Director's Liability.** No Director shall have any personal liability to the Corporation or to its shareholders for monetary damages for breach of duty of care or other duty as a Director, by reason of any act or omission, except that this provision shall not eliminate or limit the liability of a Director for liabilities of a Director imposed by Section 607.0831 of the Act.

**Article 7. No Preemptive Rights.** No holder of any of the shares of any class of stock of the Corporation shall be entitled as of right to subscribe for, purchase, or otherwise acquire any shares of any class of stock of the Corporation which the Corporation proposes to issue or any rights or options which the Corporation proposes to grant for the purchase of shares of any class of stock of the Corporation or for the purchase of any shares, bonds, securities, or obligations of the Corporation which are convertible into or exchangeable for, or which carry any rights to subscribe for, purchase, or otherwise acquire shares of any class of stock of the Corporation; and any and all of such shares, bonds, securities, or obligations of the Corporation, whether now or hereafter authorized or created, may be issued, or may be reissued if the same have been reacquired and if their reissue is not prohibited, and any and all of such rights and options may be granted by the Board of Directors to such individuals and entities, and for such lawful consideration, and on such terms, as the Board of Directors in its discretion may determine, without first offering the same, or any thereof, to any said holder.

**Article 8. Indemnification.** Each person who is or was a Director or Officer of the Corporation, and each person who is or was a Director or Officer of the Corporation who at the request of the Corporation is serving or has served as an officer, director, partner, joint venturer, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be indemnified by the Corporation against those expenses (including attorneys' fees), judgments, fines, penalties and amounts paid in settlement which are allowed to be paid or reimbursed by the Corporation under the laws of the State of Florida and which are actually and reasonably incurred in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, in which such person may be involved by reason of his being or having been a Director or Officer of this Corporation or of such other enterprises.

The indemnification provided herein shall not be deemed to limit the right of the Corporation to indemnify any other person for any liability, including obligations to pay a judgment, settlement, penalty, fine (including and excise tax assessed with respect to any employee benefit plan), and expenses actually and reasonably incurred (including attorneys' fees), to the fullest extent permitted by law, both as to action in such person's official capacity and as to action in another capacity while holding such office.

Notwithstanding anything contained herein to the contrary, this Article is intended to provide indemnification to each Director and Officer of the Corporation to the fullest extent authorized by the Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader rights than said statute permitted the Corporation to provide prior thereto). Neither any amendment nor repeal of this Article 8 shall eliminate or reduce the effect of this Article 8, with respect to any matter occurring, or any action or proceeding accruing or arising or that, but for this Article 8, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

**Article 9. Special Meeting of Shareholders.** Special meetings of the shareholders for any purpose may be called at the request in writing of shareholders owning not less than 50% of all votes entitled to be cast on any issue proposed to be considered at the proposed meeting by delivering one or more written demands for the meeting which are signed, dated and delivered to the Secretary of the Corporation and describe the purposes for which the meeting is to be held.

**Article 10. Board Vacancies.** Any vacancies occurring on the Board of Directors for any reason (including death, resignation, disqualification, removal or other causes) and any newly created directorships resulting from an increase in the authorized number of Directors may be filled only by vote of a majority of the remaining members of the Board of Directors, even if less than a quorum, at any meeting of the Board of Directors. Notwithstanding the immediately preceding sentence, the Board of Directors may by resolution determine that any such vacancies or newly created directorships shall be filled by the shareholders of the Corporation.

**Article 11. Incorporator.** The name and the address of the Incorporator is Steve Gorlin, 1234 Airport Road, Suite 105, Destin, Okaloosa County, Florida 32541.

IN WITNESS WHEREOF, the undersigned has executed these Articles of Incorporation effective as of February 28, 2008.

By: \_\_\_\_\_  
Name: Steve Gorlin  
Title: Incorporator

ARTICLES OF AMENDMENT  
TO THE  
ARTICLES OF INCORPORATION

**OF**  
**MIMEDX GROUP, INC.**

MiMedx Group, Inc., a corporation organized and existing under the laws of the State of Florida, hereby certifies as follows:

1. The name of the corporation is MiMedx Group, Inc. (the "Corporation").
2. Pursuant to Section 607.1003 of the Florida Business Corporation Act (the "Act"), these Articles of Amendment ("Articles of Amendment") amend the Articles of Incorporation of the Corporation filed in the Office of the Department of State of the State of Florida on February 28, 2008, as amended by the Articles of Merger filed in the Office of the Department of State of the State of Florida on March 31, 2008 (as amended, the "Amended Articles").
3. These Articles of Amendment were duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 607.1003 of the Act March 31, 2010.
4. These Articles of Amendment were duly approved by holders of a majority of the outstanding shares of the Common Stock of the Corporation in accordance with the provisions of Section 607.1003 of the Act and the Amended Articles on May 11, 2010.
5. The Amended Articles are hereby amended by deleting Article 10 in its entirety, and inserting the following text in lieu thereof:
  - (a) The number of directors shall consist of not less than three members, the exact number of which shall be fixed from time to time by resolution adopted by the Board of Directors; provided, that no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Directors shall be natural persons 18 years of age or older, but need not be residents of the State of Florida or shareholders of the Corporation.
  - (b) The members of the Board of Directors elected at the 2010 annual meeting of Shareholders shall be divided into three classes, designated as Class I, Class II, and Class III as specified in the resolution adopted by Shareholders at such meeting. Each Class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The Class I directors elected at the 2010 annual meeting of Shareholders shall be deemed elected for a three-year term, Class II directors for a two-year term, and Class III directors for a one-year term. Each director shall hold office until the next annual meeting of Shareholders upon which his/her term expires and until his/her successor is elected and qualified, or until his/her earlier death, resignation or removal. At each succeeding annual meeting of Shareholders, successor directors to the Class of directors whose term expires at that annual meeting of Shareholders shall be elected for a three-year term. If the number of directors has changed, any increase or decrease shall be apportioned among the Classes so as to maintain the number of directors in each Class as nearly equal as possible.
  - (c) Any vacancies occurring on the Board of Directors, including a vacancy resulting from an increase in the number of directors, may be filled only by the affirmative vote of a majority of the remaining members of the Board of Directors, even if less than a quorum, at any meeting of the Board of Directors. Notwithstanding the immediately preceding sentence, the Board of Directors may by resolution determine that any such vacancies shall be filled by the Shareholders of the Corporation. A director elected to fill a vacancy occurring on the Board of Directors, including a vacancy resulting from an increase in the number of directors, shall hold office until the next annual meeting of Shareholders upon which his/her term expires and until his/her successor is elected and qualified, or until his/her earlier death, resignation or removal.
  - (d) A director may be removed from office only for cause as hereinafter defined and at a meeting of Shareholders called expressly for that purpose by a vote of the holders of 66-2/3% of the shares cast that are entitled to vote at an election of directors. For purposes of this provision, "cause" shall mean (i) a conviction of a felony regardless of whether it relates to the Corporation or its securities; (ii) declaration of incompetency or unsound mind by court order; or (iii) commission of an action that constitutes intentional misconduct or a knowing violation of law that, in either case, results in a material injury to the Corporation."

IN WITNESS WHEREOF, the undersigned has executed these Articles of Amendment on May 14, 2010.

**MIMEDX GROUP, INC.**

By: /s/ Parker H. Petit  
Name: Parker H. Petit  
Its: Chairman & CEO

**ARTICLES OF AMENDMENT  
TO THE  
ARTICLES OF INCORPORATION  
OF  
MIMEDX GROUP, INC.**

MiMedx Group, Inc., a corporation organized and existing under the laws of the State of Florida, hereby certifies as follows:

1. The name of the corporation is MiMedx Group, Inc. (the "Corporation").
2. Pursuant to Section 607.1003 of the Florida Business Corporation Act (the "Act"), these Articles of Amendment ("Articles of Amendment") amend the Articles of Incorporation of the Corporation filed in the Office of the Department of State of the State of Florida on February 28, 2008, as amended by the Articles of Merger filed in the Office of the Department of State of the State of Florida on March 31, 2008, and the Articles of Amendment filed in the Office of the Department of State of the State of Florida on May 14, 2010, (as amended, the "Amended Articles").
3. These Articles of Amendment were duly adopted by the Board of Directors of the Corporation on November 14, 2011, in accordance with the provisions of Section 607.1003 of the Act.
4. These Articles of Amendment were duly approved by holders of a majority of the outstanding shares of the Common Stock of the Corporation in accordance with the provisions of Section 607.1003 of the Act and the Amended Articles on December 14, 2011.
5. The Amended Articles are hereby amended by deleting the first paragraph of Article 3 in its entirety, and inserting the following text in lieu thereof:

IN WITNESS WHEREOF, the undersigned has executed these Articles of Amendment on August 8, 2012.

**MIMEDX GROUP, INC.**

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

**ARTICLES OF AMENDMENT  
TO THE  
ARTICLES OF INCORPORATION  
OF  
MIMEDX GROUP, INC.**

MiMedx Group, Inc., a corporation organized and existing under the laws of the State of Florida, hereby certifies as follows:

1. The name of the corporation is MiMedx Group, Inc. (the "Corporation").
2. Pursuant to Section 607.1003 of the Florida Business Corporation Act (the "Act"), these Articles of Amendment ("Articles of Amendment") amend the Articles of Incorporation of the Corporation filed in the Office of the Department of State of the State of Florida on February 28, 2008, as amended by the Articles of Merger filed in the Office of the Department of State of the State of Florida on March 31, 2008, the





**MIMEDX GROUP, INC.**

By: /s/ Alexandra O. Haden

Name: Alexandra O. Haden

Its: Secretary

**BYLAWS  
OF  
MIMEDX GROUP, INC.**

**ARTICLE I**

**Corporate Offices**

**Section 1. Principal and Registered Offices.** The principal office of the Corporation shall be located at such place as the Board of Directors may specify from time to time. The Corporation shall have and continuously maintain a registered office and registered agent in accordance with the provisions of Section 607.0501 of the Florida Business Corporation Act, as amended (or any successor statute) (the "Act").

**Section 2. Other Offices.** The Corporation may have offices at such other places, either within or without the State of Florida, as the Board of Directors may from time to time determine.

**ARTICLE II**

**Meetings of Shareholders**

**Section 1. Place of Meeting.** Meetings of shareholders shall be held at the principal office of the Corporation or at such other place or places, either within or without the State of Florida, as the Board of Directors shall designate. In the absence of any such designation, meetings of shareholders shall be held at the principal executive office of the Corporation.

**Section 2. Annual Meeting.** The annual meeting of shareholders shall be held each year on a date and at a time designated by the Board of Directors. At the annual meeting, directors shall be elected and any other proper business may be transacted.

**Section 3. Special Meeting.** A special meeting of the shareholders for any purpose or purposes may be called at any time by the Chairman of the Board or the Chief Executive Officer, and shall be called by the Secretary at the written request of, or by resolution adopted by: (a) a majority of the Board of Directors; or (b) the holders of 50% of the outstanding shares of capital stock of the Corporation entitled to vote at such meeting, in which case, such request shall state the purpose of the proposed meeting.

**Section 4. Notice of Meetings.** Except as otherwise provided by applicable law, written, printed, or electronic notice, stating the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes of the meeting, shall be given not less than ten (10) days nor more than sixty (60) days before the date of the meeting to each shareholder of record entitled to vote at the meeting, except that no notice of a meeting need be given to any shareholder for which notice is not required to be given under applicable law. Such notice shall be given either personally, by first-class mail, by telegraphic or other written communication, or by a form of electronic transmission then consented to by the shareholder to whom the notice is given. If notice is mailed at least 30 days before the date of the meeting, the notice may be mailed by a class of United States mail other than first class. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the shareholder at the address of such shareholder appearing on the books of the Corporation or given by the shareholder to the Corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally, deposited in the mail, sent by telegram or other means of written communication, or electronically transmitted to the shareholder in a manner authorized by the shareholder.

**Section 5. Proxies.** Each shareholder entitled to vote at a meeting of shareholders may authorize another person or persons to act for him or her by proxy, but no such proxy shall be voted or acted upon after eleven (11) months from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 607.0722 of the Act.

**Section 6. Quorum.** Except as otherwise provided by law, the holders of a majority of the issued and outstanding shares of capital stock of the Corporation entitled to vote at a meeting of shareholders, present in person or represented by proxy, shall constitute a quorum for the transaction of business at such meeting. In the absence of a quorum, the chairman of the meeting shall have the power to adjourn the meeting in accordance with Article II, Section 7, of these bylaws. If a quorum is initially present, the shareholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken is approved by a majority of the shareholders initially constituting a quorum for that meeting.

**Section 7. Adjourned Meeting.** When a meeting is adjourned to another time and place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business that may have been transacted at the original meeting. If a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record as of such new record date entitled to vote at the meeting.

**Section 8. Voting of Shares.** Each outstanding share of voting capital stock of the Corporation shall be entitled to one vote on each matter submitted to a vote at a meeting of the shareholders, except as otherwise provided in the Articles of Incorporation of the Corporation. Except as otherwise provided by law, the Articles of Incorporation of the Corporation or these bylaws, if a quorum is present:

(I) a nominee for director shall be elected by a majority of the votes cast by the shares entitled to vote on the election; provided, however that directors shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at such meeting if the number of nominees for director exceeds the number of directors to be elected. In the event an incumbent director fails to receive a majority of the votes cast (unless, as provided above, the director election standard is a plurality of the votes cast), the incumbent director shall promptly tender his or her resignation to the Board of Directors. The Nominating and Corporate Governance Committee of the Board of Directors will make a recommendation to the Board of Directors on whether to accept or reject the resignation, or whether other action should be taken. The Board of Directors, taking into account the recommendation of the Nominating and Corporate Governance Committee, will determine whether to accept or reject such resignation, or what other action should be taken, within 100 days from the date of the certification of election results; and

(II) action on any matter other than the election of directors shall be approved if the votes cast by the holders of shares represented at the meeting and entitled to vote on the subject matter favoring the action exceed the votes cast opposing the action.

**Section 9. Shareholder Nominations and Proposals.** Nominations for election as a director and proposals for shareholder action may be made only by shareholders of the Corporation of record at the time of the giving of notice provided for herein and shall be made in writing and shall be delivered or mailed to the Secretary of the Corporation: (a) in the case of an annual meeting of shareholders that is called for a date that is within thirty (30) days before or after the anniversary date of the immediately preceding annual meeting of shareholders, not less than one hundred twenty (120) days prior to such anniversary date; and (b) in the case of an annual meeting of shareholders that is called for a date that is not within thirty (30) days before or after the anniversary date of the immediately preceding annual meeting of shareholders, or in the case of a special meeting of shareholders, not later than the close of business on the tenth (10th) day following the day on which the notice of meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. Such notification shall contain a written statement of the shareholder's proposal and of the reasons therefor, his name and address and number of shares owned, and, in the case of the nomination of a director, nominations shall contain the following information to the extent known by the notifying shareholder: (i) the name, age and address of each proposed nominee; (ii) the principal occupation of each proposed nominee; (iii) the nominee's qualifications to serve as a director; (iv) such other information relating to such nominee as required to be disclosed in solicitation of proxies for the election of directors pursuant to the rules and regulations of the Securities and Exchange Commission; (v) the name and residence address of the notifying shareholder; and (vi) the number of shares owned by the notifying shareholder, and shall be accompanied by the nominee's written consent to being named a nominee and serving as a director if elected. A shareholder making any proposal shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended. Nominations or proposals not made in accordance herewith may be disregarded by the chairman of the meeting in his discretion, and upon his instructions all votes cast for each such nominee or for such proposal may be disregarded.

**Section 10. Record Date for Shareholder Notice.** The Board of Directors may fix a date as the record date for the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders. Such record date shall not precede the date on which the Board of Directors adopted the resolution fixing the record date and shall not be more than seventy (70) days or less than ten (10) days prior to the date of such meeting. If the Board of Directors does not fix a record date, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. The determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting.

**Section 11. List of Shareholders.** It shall be the duty of the Secretary or other officer of the Corporation who shall have charge of the stock records, either directly or through a transfer agent appointed by the Board of Directors, to prepare and make, at least ten (10) days before every meeting of shareholders, a complete list of shareholders entitled to vote at such meeting arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at the Corporation's principal office or at a place specified in the notice of the meeting. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present.

**Section 12. Inspectors of Elections.**

(a) **Appointment of Inspectors of Election.** In advance of any meeting of shareholders, the Board of Directors may appoint one or more persons, other than nominees for office, as inspectors of election to act at such meeting or any adjournment thereof. If inspectors of election are not so appointed, the chairman of any such meeting may, and on the request of any shareholder or his proxy shall, appoint inspectors of election at the meeting. In case any person appointed as inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment by the Board of Directors in advance of the meeting, or at the meeting by the chairman of the meeting.

(b) **Duties of Inspectors.** The inspectors of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies and ballots, receive votes, ballots or consents, count and tabulate all votes and ballots, determine the results, retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, certify their determination of the number of shares represented at the meeting and their count of all votes and ballots, and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical.

(c) **Vote of Inspectors.** If there are more than one inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all.

(d) **Report of Inspectors.** On request of the chairman of the meeting or of any shareholder or his proxy, the inspectors shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them is prima facie evidence of the facts stated herein.

**Section 13. Action Without Meeting.** Any action that the shareholders could take at a meeting may be taken without a meeting if one or more written consents, setting forth the action taken, shall be signed and dated, before or after such action, by the holders of outstanding stock of each voting group entitled to vote thereon having not less than the minimum number of votes with respect to each voting group that would be necessary to authorize or take such action at a meeting at which all voting groups and shares entitled to vote thereon were present and voted. The consent shall be delivered to the Corporation for inclusion in the minutes or filing with the corporate records. The Corporation shall give notice of any action so taken within ten (10) days of the date of such action to those shareholders entitled to vote thereon who did not give their written consent and to those shareholders not entitled to vote thereon.

**Section 14. Remote Communication.** If authorized by the Board of Directors, and subject to such guidelines and procedures as the Board of Directors may adopt, shareholders and proxy holders not physically present at an annual or special meeting of shareholders may, by means of remote communication:

(a) Participate in such meeting of shareholders.

(b) Be deemed present in person and vote at such meeting, whether the meeting is to be held at a designated place or solely by means of remote communication, provided that:

(i) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a shareholder or proxy holder;

(ii) the Corporation shall implement reasonable measures to provide such shareholders or proxy holders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the shareholders, including, without limitation, an opportunity to communicate and to read or hear the proceedings of the meeting substantially concurrently with such proceedings; and

(iii) if any shareholder or proxy holder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

### **ARTICLE III**

#### **Board of Directors**

**Section 1. General Powers.** The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors except as otherwise provided by law, the Articles of Incorporation of the Corporation or these bylaws.

**Section 2. Number, Term and Qualification.** As provided in the Articles of Incorporation, the number of directors shall consist of not less than three members, the exact number of which shall be fixed from time to time by resolution adopted by the Board of Directors; provided, that no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. The members of the Board of Directors elected at the 2010 annual meeting of shareholders shall be divided into three classes, designated as Class I, Class II, and Class III as specified in the resolution adopted by shareholders at such meeting. Each Class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The Class I directors elected at the 2010 annual meeting of shareholders shall be deemed elected for a three-year term, Class II directors for a two-year term, and Class III directors for a one-year term. Each director shall hold office until the next annual meeting of shareholders upon which his/her term expires and until his/her successor is elected and qualified, or until his/her earlier death, resignation or removal. At each succeeding annual meeting of shareholders, successor directors to the Class of directors whose term expires at that annual meeting of shareholders shall be elected for a three-year term. If the number of directors has changed, any increase or decrease shall be apportioned among the Classes so as to maintain the number of directors in each Class as nearly equal as possible. Directors shall be natural persons 18 years of age or older, but need not be residents of the State of Florida or shareholders of the Corporation.

**Section 3. Removal.** As provided in the Articles of Incorporation, a director may be removed from office only for cause as hereinafter defined and at a meeting of shareholders called expressly for that purpose by a vote of the holders of 66- 2/3 % of the shares cast that are entitled to vote at an election of directors. For purposes of this provision, "cause" shall mean (i) a conviction of a felony regardless of whether it relates to the Corporation or its securities; (ii) declaration of incompetency or unsound mind by court order; or (iii) commission of an action that constitutes intentional misconduct or a knowing violation of law that, in either case, results in a material injury to the Corporation.

**Section 4. Resignation.** Any director of the Corporation may resign at any time by giving written notice to the Chairman of the Board, the Chief Executive Officer or the Secretary of the Corporation. Such resignation shall be effective upon the giving of such notice or at such later time as shall be specified therein. The acceptance of such resignation shall not be necessary to make it effective.

**Section 5. Vacancies.** As provided in the Articles of Incorporation, any vacancies occurring on the Board of Directors, including a vacancy resulting from an increase in the number of directors, may be filled only by the affirmative vote of a majority of the remaining members of the Board of Directors, even if less than a quorum, at any meeting of the Board of Directors. Notwithstanding the immediately preceding sentence, the Board of Directors may by resolution determine that any such vacancies shall be filled by the shareholders of the Corporation. A director elected to fill a vacancy occurring on the Board of Directors, including a vacancy resulting from an increase in the number of directors, shall hold office until the next annual meeting of shareholders upon which his/her term expires and until his/her successor is elected and qualified, or until his/her earlier death, resignation or removal.

**Section 6. Compensation.** Directors and members of committees may receive such compensation, if any, for their services as such and may be reimbursed for expenses of attendance at meetings of the Board or a committee as may be fixed or determined by resolution of the Board of Directors. Any director may serve the Corporation in any other capacity and receive compensation therefor.

### **ARTICLE IV**

#### **Meetings of Directors**

**Section 1. Annual Meetings.** The annual meeting of the Board of Directors for the purpose of electing officers and transacting such other business as may be brought before the meeting shall be held immediately following the annual meeting of the shareholders at the place where such meeting is held. Notice of annual meetings shall not be required.

**Section 2. Regular Meetings.** The Board of Directors may by resolution provide for the holding of regular meetings of the Board on specified dates and at specified times. If any date for which a regular meeting is scheduled shall be a legal holiday, the meeting shall be held on the next business day that is not a legal holiday. Regular meetings of the Board of Directors shall be held at the principal executive office of the Corporation or at such other place as may be determined by resolution of the Board of Directors. Notice of regular meetings shall not be required.

**Section 3. Special Meetings.** Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the Chief Executive Officer, or the Secretary. Such meetings may be held at the time and place designated in the notice of the meeting.

**Section 4. Notice of Special Meetings.** Notice of the time and place of special meetings shall be given to each director: (a) in a writing mailed not less than five days before such meeting addressed to the residence or usual place of business of a director; (b) by facsimile, telecopy or telegram sent not less than two days before such meeting to the residence or usual place of business of a director; or (c) in person or by telephone delivered not less than one day before such meeting, or (d) by electronic mail or other electronic means, during normal business hours, not less than one day before such meeting. Attendance by a director at a meeting for which notice is required shall constitute a waiver of notice, except where a director attends the meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called. Except as otherwise herein provided, neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in the notice of such meeting.

**Section 5. Quorum.** A majority of the Board of Directors shall constitute a quorum for the transaction of business at a meeting of the Board of Directors. If a quorum is initially present, the Board of Directors may continue to transact business, notwithstanding the withdrawal of enough directors to leave less than a quorum, if any action taken is approved by a majority of the directors initially constituting a quorum for that meeting.

**Section 6. Adjourned Meeting.** A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting of the Board of Directors to another time and place. Notice of the time and place of holding an adjourned meeting of the Board of Directors need not be given unless the meeting is adjourned for more than forty-eight (48) hours. If the meeting is adjourned for more than forty-eight (48) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Article IV, Section 4 of these bylaws, to the directors who were not present at the time of the adjournment.

**Section 7. Manner of Acting.** Except as otherwise provided by law, these bylaws or the Articles of Incorporation of the Corporation, the act of the majority of the directors present at a duly held meeting at which a quorum is present shall be the act of the Board of Directors.

**Section 8. Action Without Meeting.** Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors, whether done before or after the action is taken. Such unanimous written consent shall have the same force and effect as a unanimous vote at a meeting, and may be stated as such in any articles, certificates or documents filed with the Department of State of Florida or any other State wherein the Corporation may do business.

**Section 9. Presumption of Assent.** A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless such director objects at the beginning of the meeting (or promptly upon his or her arrival) to the holding the meeting or the transacting of specified business at the meeting or such director votes against such action or abstains from voting in respect of such matter.

**Section 10. Meeting by Use of Conference Telephone.** Any one or more directors may participate in a meeting of the Board of Directors by means of a conference telephone or similar communications device which allows all persons participating in the meeting to hear each other, and such participation in a meeting shall be deemed presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

## **ARTICLE V**

### **Committees**

**Section 1. Designation of Committees.** The Board of Directors may, by resolution passed by a majority of the Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in these bylaws or in the resolution of the Board of Directors establishing the same, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation; provided, however, that no such committee shall have the power or authority to: (a) approve or recommend to shareholders actions or proposals required by the Act to be approved by shareholders; (b) fill vacancies on the Board of Directors or any committee thereof; (c) authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors; (d) authorize or approve the issuance or sale or contract for the sale of shares, or determine the designation and relative rights, preferences and limitations of a voting group, except that the Board of Directors may authorize a committee to do so within specifically prescribed limits; or (e) adopt, amend or repeal these bylaws. Such committees or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

**Section 2. Minutes.** Each committee shall keep minutes of its proceedings and shall report thereon to the Board of Directors when required.

**Section 3. Meetings and Action of Committees.** Meetings and actions of committees shall be governed by, and held in accordance with, the following provisions of Article IV of these bylaws: Section 2 (regular meetings), Section 3 (special meetings), Section 4 (notice of special meetings), Section 5 (quorum), Section 6 (adjourned meeting), Section 7 (manner of acting), Section 8 (action without meeting) and Section 10 (meeting by use of conference telephone), with such changes in the context of such bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the Board of Directors, and that notice of special meetings of committees shall also be given to all alternative members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the governance of any committee not inconsistent with the provisions of these bylaws.

## **ARTICLE VI**

### **Officers**

**Section 1. Titles.** The officers of the Corporation shall be elected by the Board of Directors and shall consist of a Chairman of the Board, a Chief Executive Officer, a President, a Chief Financial Officer, a Secretary, and a Treasurer. The Board of Directors may also elect a Controller and one or more Vice Presidents and Assistant Secretaries, Assistant Treasurers and such other officers as it shall deem necessary. Except as otherwise provided in these bylaws, the additional officers shall have the authority and perform the duties as from time to time may be prescribed by the Board of Directors. Any two or more offices may be held by the same individual, but no officer may act in more than one capacity where action of two or more officers is required.

**Section 2. Election and Term.** The officers of the Corporation shall be elected by the Board of Directors at the annual meeting of the Board held each year immediately following the annual meeting of the shareholders, and each officer shall hold office until the next annual meeting at which officers are to be elected and until his successor is elected and qualified, or until his earlier resignation or removal pursuant to these bylaws.

**Section 3. Removal.** Any officer or agent elected or appointed by the Board of Directors may be removed, with or without cause, by the Board of Directors, but removal shall be without prejudice to any contract rights of the individual removed. Election or appointment of an officer or agent shall not of itself create contract rights.

**Section 4. Resignation.** Any officer of the Corporation may resign at any time by giving written notice to the Corporation. Such resignation shall be effective upon the giving of such notice or at such later time as shall be specified therein. The acceptance of such resignation shall not be necessary to make it effective.

**Section 5. Vacancies.** Any vacancies among the officers for any reason (including death, resignation, disqualification, removal or other causes) may be filled by the Board of Directors in the manner prescribed in these bylaws for regular elections to that office.

**Section 6. Compensation.** The compensation of the officers shall be fixed by or under the direction of the Board of Directors. No officer shall be prevented from receiving such compensation by reason of the fact that such officer is also a director of the Corporation.

**Section 7. Chairman of the Board.** The Chairman of the Board shall have general executive powers, as well as the specific powers conferred by these bylaws. Except as otherwise provided in these bylaws, he shall preside at all meetings of the Board of Directors. The Chairman of the Board may but need not be an employee of the Corporation.

**Section 8. Chief Executive Officer.** The Chief Executive Officer shall have general charge of the business and affairs of the Corporation. The Chief Executive Officer may perform such acts, not inconsistent with the applicable law or the provisions of these bylaws, usually performed by the principal executive officer of a corporation and may sign and execute all authorized notes, bonds, contracts and other obligations in the name of the Corporation. The Chief Executive Officer shall have such other powers and perform such other duties as the Board of Directors shall designate or as may be provided by applicable law or elsewhere in these bylaws.

**Section 9. President.** The President shall have responsibility for the day-to-day operations of the business of the Corporation and shall report to the Chief Executive Officer. The President may perform such acts, not inconsistent with the applicable law or the provisions of these bylaws, usually performed by the chief operating officer of a corporation and may sign and execute all authorized notes, bonds, contracts and other obligations in the name of the Corporation. The President shall have such other powers and perform such other duties as the Board of Directors shall designate or as may be provided by applicable law or elsewhere in these bylaws, and in the event of the disability or death of the Chief Executive Officer, he shall perform the duties of the Chief Executive Officer unless and until a new Chief Executive Officer is elected by the directors.

**Section 10. Chief Financial Officer.** The Chief Financial Officer of the Corporation shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director for a purpose reasonably related to his position as a director. The Chief Financial Officer shall render to the Chief Executive Officer and Board of Directors, whenever they may request it, an account of the transactions of the Corporation and of the financial condition of the Corporation. The Chief Financial Officer shall have such other powers and perform such other duties as the Board of Directors shall designate or as may be provided by applicable law or elsewhere in these bylaws.

**Section 11. Vice Presidents.** Each Vice President shall have such powers and perform such duties as shall be assigned to him by the Board of Directors.

**Section 12. Secretary.** The Secretary shall keep, or cause to be kept, accurate records of the acts and proceedings of all meetings of shareholders and of the Board of Directors and shall give all notices required by law and by these bylaws. The Secretary shall have general charge of the corporate books and records and of the corporate seal and shall affix the corporate seal to any lawfully executed instrument requiring it. The Secretary shall have general charge of the stock transfer books of the Corporation and shall keep, or cause to be kept, at the principal office of the Corporation a record of shareholders, showing the name and address of each shareholder and the number and class of the shares held by each shareholder. The Secretary shall sign such instruments as may require the signature of the Secretary, and in general may perform such acts, not inconsistent with the applicable law or the provisions of these bylaws, usually performed by the secretary of a corporation. The Secretary shall have such other powers and perform such other duties as the Board of Directors shall designate from time to time.

**Section 13. Assistant Secretaries.** Each Assistant Secretary shall have such powers and perform such duties as may be assigned by the Board of Directors, and the Assistant Secretaries shall exercise the powers of the Secretary during that officer's absence or inability to act.

**Section 14. Treasurer.** The Treasurer shall have the custody of the corporate funds and securities and shall keep and maintain, or cause to be kept and maintained, full and accurate accounts of receipts and disbursements. The Treasurer shall deposit all monies and other valuables in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse funds of the Corporation as may be ordered by the Board of Directors, the Chief Executive Officer or the President, taking proper vouchers for such disbursements. The Treasurer shall also have such powers and perform such duties incident to the office as may be assigned from time to time by the Board of Directors.

**Section 15. Assistant Treasurers.** Each Assistant Treasurer shall have such powers and perform such duties as may be assigned by the Board of Directors, and the Assistant Treasurers shall exercise the powers of the Treasurer during that officer's absence or inability to act.

**Section 16. Controller and Assistant Controllers.** The Controller shall have charge of the accounting affairs of the Corporation and shall have such other powers and perform such other duties as the Board of Directors shall designate. The Controller shall report to the Chief Financial Officer. Each Assistant Controller shall have such powers and perform such duties as may be assigned by the Board of Directors, and the Assistant Controllers shall exercise the powers of the Controller during that officer's absence or inability to act.

**Section 17. Voting Upon Stocks.** Unless otherwise ordered by the Board of Directors, the Chairman of the Board and the Chief Executive Officer shall have full power and authority on behalf of the Corporation to attend, act and vote at meetings of the shareholders of any Corporation in which this Corporation may hold stock, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such stock and which, as the owner, the Corporation might have possessed and exercised. The Board of Directors may by resolution from time to time confer such power and authority upon any other person or persons.

## **ARTICLE VII**

### **Capital Stock**

#### **Section 1. Certificated and Uncertificated Shares**

(a) The interest of each shareholder may but need not be evidenced by a certificate or certificates representing shares of the Corporation which shall be in such form as the Board of Directors may from time to time adopt and shall be numbered and entered into the books of the Corporation as they are issued. Each certificate representing shares shall set forth upon the face thereof the following:

- (i) the name of the Corporation;

(ii) that the Corporation is organized under the laws of the State of Florida;

(iii) the name or names of the person or persons to whom the certificate is issued;

(iv) the number and class of shares, and the designation of the series, if any, which the certificate represents;

(v) if different classes of shares or different series within a class are authorized, then the designations, relative rights, preferences, and limitations determined for each series (and the authority of the Board of Directors to determine variations for future series) must be summarized on the front or back of each certificate, or, alternatively, each certificate may state conspicuously on its front or back that the Corporation will furnish the shareholder a full statement of this information on request and without charge; and

(vi) if any shares represented by the certificates are subject to any restrictions on the transfer or the registration of transfer of shares, then such restrictions shall be noted conspicuously on the front or back of such certificates.

(b) Each certificate shall be signed, either manually or in facsimile, by the Chairman of the Board, the Chief Executive Officer, the President or a Vice President and the Secretary or an Assistant Secretary and may be sealed with the seal of the Corporation or a facsimile thereof. If a certificate is countersigned by a transfer agent or registered by a registrar, other than the Corporation itself or an employee of the Corporation, the signature of any such officer of the Corporation may be a facsimile. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation, or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be delivered as though the person or persons who signed such certificate or certificates or whose facsimile signatures shall have been used thereon had not ceased to be such officer or officers.

(c) Unless the Corporation's Articles of Incorporation provide otherwise, the Board of Directors may authorize the issue of some or all of the shares of the Corporation of any or all of its classes or series without certificates. Such authorization shall not affect shares already represented by certificates until they are surrendered to the Corporation.

(d) Within a reasonable time after the issue or transfer of shares without certificates, the Corporation shall send the shareholder then owning such shares a written statement of the information required to be placed on certificates by Section 1(a) of Article VII of these Bylaws and applicable law.

**Section 2. Transfer of Shares.** Transfer of record of shares of stock of the Corporation shall be made on the stock transfer books of the Corporation only upon surrender of the certificate for the shares sought to be transferred by the record holder or by a duly authorized agent, transferee or legal representative. All certificates surrendered for transfer shall be cancelled before new certificates for the transferred shares shall be issued.

**Section 3. Restrictions on Transfer of Shares.** The Corporation shall have the power to enter into and perform any agreement with any shareholders of the Corporation to restrict the transfer of shares of stock of the Corporation of any one or more classes owned by such shareholders in any manner not prohibited by the Act.

**Section 4. Transfer Agent and Registrar.** The Board of Directors may appoint one or more transfer agents and one or more registrars of transfers and may require all stock certificates to be signed or countersigned by the transfer agent and registered by the registrar of transfers.

**Section 5. Regulations.** The Board of Directors shall have power and authority to make rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates for shares of capital stock of the Corporation.

**Section 6. Lost Certificates.** The Board of Directors may authorize the issuance of a new certificate in place of a certificate claimed to have been lost or destroyed, upon receipt of an affidavit from the person explaining the loss or destruction. When authorizing issuance of a new certificate, the Board of Directors may require the claimant to give the Corporation a bond in a sum as it may direct to indemnify the Corporation against loss from any claim with respect to the certificate claimed to have been lost or destroyed; or the Board of Directors may, by resolution reciting that the circumstances justify such action, authorize the issuance of the new certificate without requiring a bond.

## **ARTICLE VIII**

### **General Provisions**

**Section 1. Dividends.** The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law.

**Section 2. Record Date for Purposes Other Than Shareholder Notice.** The Board of Directors may fix a date as the record date for the purpose of determining shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the shareholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action. Such record date shall not precede the date upon which the resolution fixing the record date is adopted and shall not be more than seventy (70) days prior to such action. If no record date is fixed by the Board of Directors, the record date for determining shareholders for any such purpose shall be at the close of business on the date on which the Board of Directors adopts the resolution relating thereto.

**Section 3. Seal.** The seal of the Corporation may have inscribed thereon the name of the Corporation and "Florida" around the perimeter, and the words "Corporate Seal" in the center.

**Section 4. Notice.** Notice to directors and shareholders shall be deemed given: (a) if mailed, when deposited in the United States mail, postage prepaid, directed to the shareholder or director at such shareholder's or director's address as it appears on the records of the Corporation; (b) if by facsimile telecommunication, when directed to a number at which the shareholder or director has consented to receive notice; (c) if by electronic mail, when directed to an electronic mail address at which the shareholder or director has consented to receive notice; (d) if by a posting on an electronic network together with separate notice to the shareholder or director of such specific posting, upon the later of (1) such posting and (2) the giving of such separate notice; and (e) if by any other form of electronic transmission, when directed to the shareholder or director in a manner consented to by such shareholder or director.

**Section 5. Waiver of Notice.** Whenever notice is required to be given to a shareholder, director or other person under the provisions of these bylaws, the Articles of Incorporation of the Corporation or by applicable law, a waiver in writing signed by the person or persons entitled to the notice,

whether before or after the time stated in the notice, shall be equivalent to giving the notice.

**Section 6. Depositories and Checks.** All funds of the Corporation shall be deposited in the name of the Corporation in such bank, banks or other financial institutions as the Board of Directors may from time to time designate and shall be drawn out on checks, drafts or other orders signed on behalf of the Corporation by such person or persons as the Board of Directors may from time to time designate.

**Section 7. Bond.** The Board of Directors may by resolution require any or all officers, agents and employees of the Corporation to give bond to the Corporation, with sufficient sureties, conditioned on the faithful performance of the duties of their respective offices or positions, and to comply with such other conditions as may from time to time be required by the Board of Directors.

**Section 8. Fiscal Year.** The fiscal year of the Corporation shall be the period ending on December 31 of each year or such other period as the Board of Directors shall from time to time determine.

**Section 9. Indemnification of Directors and Officers.** Each person who is or was a director or officer of the Corporation, and each person who is or was a director or officer of the Corporation who at the request of the Corporation is serving or has served as an officer, director, partner, joint venturer, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be indemnified by the Corporation against those expenses (including attorneys' fees), judgments, fines, penalties and amounts paid in settlement which are allowed to be paid or reimbursed by the Corporation under the laws of the State of Florida and which are actually and reasonably incurred in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, in which such person may be involved by reason of his being or having been a director or officer of this Corporation or of such other enterprises.

The indemnification provided herein shall not be deemed to limit the right of the Corporation to indemnify any other person for any liability, including obligations to pay a judgment, settlement, penalty, fine (including and excise tax assessed with respect to any employee benefit plan), and expenses actually and reasonably incurred (including attorneys' fees), to the fullest extent permitted by law, both as to action in such person's official capacity and as to action in another capacity while holding such office.

The Corporation may enter into indemnification agreements with members of the Board of Directors or officers which may provide for further or expanded indemnification rights or otherwise modify the rights provided under this Section 9.

Notwithstanding anything contained herein to the contrary, this Section 9 is intended to provide indemnification to each director and officer of the Corporation to the fullest extent authorized by the Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader rights than said statute permitted the Corporation to provide prior thereto). Neither any amendment nor repeal of this Section 9 shall eliminate or reduce the effect of this Section 9, with respect to any matter occurring, or any action or proceeding accruing or arising or that, but for this Section 9, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

**Section 10. Amendments.** Except as otherwise provided herein, these bylaws may be amended or repealed and new bylaws may be adopted by the affirmative vote of the holders of a majority of the capital stock issued and outstanding and entitled to vote at any meeting of shareholders or by resolution adopted by the affirmative vote of not less than a majority of the number of directors of the Corporation.



MiMedx Group, Inc.  
List of Subsidiaries

<b>Company</b>	<b>Jurisdiction of Organization</b>
MiMedx, Inc.	Florida
MiMedx Processing Services, LLC	Florida
MiMedx Tissue Services, LLC	Georgia
Stability Biologics, LLC	Georgia

### **Consent of Independent Registered Public Accounting Firm**

We hereby consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-153255, 333-183991, 333-189784, 333-199841, and 333-211900 and Form S-3 No. 333-189785) of our reports dated March 1, 2017, included in this Annual Report on Form 10-K of MiMedx Group, Inc. and Subsidiaries (the Company) relating to the consolidated balance sheets of the Company as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows and the related consolidated financial statement schedule for each of the three years in the period ended December 31, 2016, and the effectiveness of internal control over financial reporting for the Company as of December 31, 2016.

/s/ Cherry Bekaert LLP

Atlanta, Georgia

March 1, 2017

## Section 302 Certification

I, Parker H. Petit, certify that:

1. I have reviewed this annual report on Form 10-K of MiMedx Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared,
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation, and
  - (d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2017

/s/: Parker H. Petit

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Parker H. Petit

Chief Executive Officer

(principal executive officer)

## Section 302 Certification

I, Michael J. Senken, certify that:

1. I have reviewed this annual report on Form 10-K of MiMedx Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared,
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation, and
  - (d) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2017

/s/ Michael J. Senken

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Michael J. Senken

Chief Financial Officer

(principal financial officer)

Section 906 Certification

The undersigned Parker H. Petit, the Chief Executive Officer of MiMedx Group, Inc. (the “Company”), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company’s Annual Report on Form 10-K for the year ending December 31, 2016 (the “Report”). The undersigned hereby certifies, to the best of his knowledge, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2017

/s/: Parker H. Petit

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Parker H. Petit

Chief Executive Officer

(principal executive officer)

## Section 906 Certification

The undersigned Michael J. Senken, the Chief Financial Officer of MiMedx Group, Inc. (the “Company”), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company’s Annual Report on Form 10-K for the year ending December 31, 2016 (the “Report”). The undersigned hereby certifies, to the best of his knowledge, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2017

/s/ Michael J. Senken

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Michael J. Senken

Chief Financial Officer

(principal financial officer)