

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

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

For the Quarterly Period Ended September 30, 2019

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 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 Ct. NE**

**Marietta, GA**

(Address of principal executive offices)

**30062**

(Zip Code)

**(770) 651-9100**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Non-accelerated filer

(Do not check if a smaller

Large accelerated filer

Accelerated filer

reporting company)

Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(A) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 110,328,875 shares of the registrant's common stock, par value \$0.001 per share, outstanding as of June 25, 2020.

## Table of Contents

Part I FINANCIAL INFORMATION		
Item 1	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets	<a href="#">5</a>
	Condensed Consolidated Statement of Operations	<a href="#">6</a>
	Condensed Consolidated Statement of Stockholders' Equity	<a href="#">7</a>
	Condensed Consolidated Statements of Cash Flows	<a href="#">9</a>
	Notes to the Unaudited Consolidated Financial Statements	<a href="#">10</a>
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	<a href="#">30</a>
Item 3	Quantitative and Qualitative Disclosures About Market Risk	<a href="#">37</a>
Item 4	Controls and Procedures	<a href="#">38</a>
Part II OTHER INFORMATION		
Item 1	Legal Proceedings	<a href="#">39</a>
Item 1A	Risk Factors	<a href="#">39</a>
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	<a href="#">39</a>
Item 3	Defaults upon Senior Securities	<a href="#">39</a>
Item 4	Mine Safety Disclosures	<a href="#">39</a>
Item 5	Other Information	<a href="#">39</a>
Item 6	Exhibits	<a href="#">41</a>
	Signatures	<a href="#">42</a>

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.

## **Explanatory Note**

As previously disclosed in the Company’s Form 10-K for the year ended December 31, 2018, filed on March 17, 2020 (the “**2018 Form 10-K**”), the Company filed no periodic reports after October 2017 until the filing of the 2018 Form 10-K. In June 2018, following an investigation (the “**Audit Committee Investigation**”), the Audit Committee of the Company’s Board of Directors, with the concurrence of management, concluded that the Company’s previously issued consolidated financial statements and financial information relating to each of the fiscal years ended December 31, 2016, 2015, 2014, 2013 and 2012 and each of the interim periods within such years, along with the unaudited condensed consolidated financial statements included in the Company’s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017 (collectively, the “**Non-Reliance Periods**”), would need to be restated (the “**Restatement**”) and could no longer be relied upon due to accounting irregularities regarding the recognition of revenue under generally accepted accounting principles in the United States of America (“**GAAP**”). The 2018 Form 10-K contained our audited consolidated statements of operations, stockholders’ equity and cash flows for the years ended December 31, 2018 and 2017, which had not previously been filed, and for the year ended December 31, 2016, which were restated from the consolidated financial statements previously filed in our Annual Report on Form 10-K for the year ended December 31, 2016. The 2018 Form 10-K also included our audited consolidated balance sheets as of December 31, 2018 and 2017.

This Form 10-Q has been prepared in connection with the Company’s continuing efforts to become a current filer. These statements should be read in conjunction with the Company’s previously-filed Annual Report on Form 10-K for the year ended December 31, 2019 (“**2019 Form 10-K**”).

## **Forward-Looking Statements**

This Form 10-Q contains forward-looking statements. All statements relating to events or results that may occur in the future are forward-looking statements, including, without limitation, statements regarding the following:

- our strategic focus, as illustrated by our strategic priorities and our ability to implement these priorities;
- our ability to access capital sufficient to implement our strategic priorities;
- our expectations regarding our ability to fund our ongoing and future operating costs;
- our expectations regarding future income tax liability;
- the advantages of our products and development of new products;
- market opportunities for our products;
- the regulatory pathway for our products, including our existing and planned investigative new drug application and pre-market approval requirements, the design and success of our clinical trials and pursuit of biologic license applications (“BLAs”) for certain products;
- our expectations regarding our ability to manufacture certain of our products in compliance with current Good Manufacturing Practices (“cGMP”);
- our expectations regarding costs relating to compliance with regulatory standards, including those arising from our clinical trials, pursuit of BLAs, and cGMP compliance;
- our ability to continue marketing our micronized products and certain other products during and following the end of the period of enforcement discretion announced by the United States Food and Drug Administration (“FDA”);
- expectations regarding government and other third-party coverage and reimbursement for our products;
- expectations regarding future revenue growth;
- our belief in the sufficiency of our intellectual property rights in our technology;
- our ability to procure sufficient supplies of human tissue to manufacture and process our products;
- the outcome of pending litigation and investigations;
- our ability to relist our common stock, par value \$0.001 per share (the “Common Stock”) on The Nasdaq Capital Market;
- ongoing and future effects arising from the Audit Committee Investigation, the Restatement, and related litigation;
- ongoing and future effects arising from the COVID-19 pandemic;
- demographic and market trends;
- our plans to remediate the identified material weaknesses in our internal control environment and to strengthen our internal control environment; and
- our ability to compete effectively.

Forward-looking statements generally can be identified by words such as “expect,” “will,” “change,” “intend,” “seek,” “target,” “future,” “plan,” “continue,” “potential,” “possible,” “could,” “estimate,” “may,” “anticipate,” “to be” and similar expressions.

These statements are based on numerous assumptions and involve known and unknown risks, uncertainties and other factors that could significantly affect the Company's operations and may cause the Company's actual actions, results, financial condition, performance or achievements to differ materially from any future actions, results, financial condition, performance or achievements expressed or implied by any such forward-looking statements. Factors that may cause such a difference include, without limitation, those discussed under the heading "*Risk Factors*" in this Form 10-Q and in our 2019 Form 10-K.

Unless required by law, the Company does not intend, and undertakes no obligation, to update or publicly release any revision to any forward-looking statements, whether as a result of the receipt of new information, the occurrence of subsequent events, a change in circumstances or otherwise. Each forward-looking statement contained in this Form 10-Q is specifically qualified in its entirety by the aforementioned factors. Readers are advised to carefully read this Form 10-Q in conjunction with the important disclaimers set forth above prior to reaching any conclusions or making any investment decisions and not to place undue reliance on forward-looking statements, which apply only as of the date of the filing of this Form 10-Q with the Securities and Exchange Commission ("SEC").

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	September 30, 2019 (unaudited)	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 94,122	\$ 45,118
Accounts receivable	21,389	—
Inventory, net	12,034	15,986
Prepaid expenses	1,895	6,673
Income tax receivable	843	454
Other current assets	3,739	5,818
<b>Total current assets</b>	<b>134,022</b>	<b>74,049</b>
Property and equipment, net	13,180	17,424
Right of use asset	3,630	—
Goodwill	19,976	19,976
Intangible assets, net	7,952	9,608
Other assets	507	1,787
<b>Total assets</b>	<b>\$ 179,267</b>	<b>\$ 122,844</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 9,420	\$ 14,864
Accrued compensation	21,076	23,024
Accrued expenses	37,438	31,842
Current portion of long term debt	3,750	—
Other current liabilities	1,683	1,817
<b>Total current liabilities</b>	<b>73,367</b>	<b>71,547</b>
Long term debt, net	62,174	—
Other liabilities	4,151	1,642
<b>Total liabilities</b>	<b>139,692</b>	<b>73,189</b>
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; 112,703,926 issued and 110,985,531 outstanding at September 30, 2019 and 112,703,926 issued and 109,098,663 outstanding at December 31, 2018	113	113
Additional paid-in capital	143,647	164,744
Treasury stock at cost: 1,718,395 shares at September 30, 2019 and 3,605,263 shares at December 31, 2018	(9,521)	(38,642)
Accumulated deficit	(94,664)	(76,560)
<b>Total stockholders' equity</b>	<b>39,575</b>	<b>49,655</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 179,267</b>	<b>\$ 122,844</b>

See notes to unaudited condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 88,863	\$ 86,959	\$ 222,855	\$ 266,525
Cost of sales	13,205	7,355	30,372	25,984
Gross margin	75,658	79,604	192,483	240,541
<b>Operating expenses:</b>				
Selling, general and administrative	51,258	58,740	152,761	192,233
Investigation, restatement and related	7,242	16,269	46,374	31,307
Research and development	2,691	3,962	8,421	11,225
Amortization of intangible assets	269	260	769	758
Impairment of intangible asset	—	—	446	—
Operating income (loss)	14,198	373	(16,288)	5,018
<b>Other income (expense)</b>				
Interest (expense) income, net	(2,255)	99	(2,313)	312
Other income, net	127	—	272	—
Income (loss) before income tax provision	12,070	472	(18,329)	5,330
Income tax provision benefit (expense)	309	(650)	225	915
Net income (loss)	\$ 12,379	\$ (178)	\$ (18,104)	\$ 6,245
Net income per common share - basic	\$ 0.12	\$ 0.00	\$ (0.17)	\$ 0.06
Net income per common share - diluted	\$ 0.11	\$ 0.00	\$ (0.17)	\$ 0.06
Weighted average shares outstanding - basic	107,157,561	105,935,736	106,929,643	104,403,622
Weighted average shares outstanding - diluted	109,590,008	105,935,736	106,929,643	109,177,577

See notes to unaudited condensed consolidated financial statements

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

	Common Stock Issued		Additional Paid - in Capital	Treasury Stock		Accumulated Deficit	Total
	Shares	Amount		Shares	Amount		
Balance at June 30, 2019	112,703,926	\$ 113	\$ 136,298	1,155,034	\$ (4,684)	\$ (107,043)	\$ 24,684
Share-based compensation expense	—	—	2,685	—	—	—	2,685
Restricted stock shares canceled/forfeited	—	—	4,664	530,274	(4,664)	—	—
Shares repurchased for tax withholding	—	—	—	33,087	(173)	—	(173)
Net income	—	—	—	—	—	12,379	12,379
Balance at September 30, 2019	112,703,926	\$ 113	\$ 143,647	1,718,395	\$ (9,521)	\$ (94,664)	\$ 39,575

	Common Stock Issued		Additional Paid - in Capital	Treasury Stock		Accumulated Deficit	Total
	Shares	Amount		Shares	Amount		
Balance at December 31, 2018	112,703,926	\$ 113	\$ 164,744	3,605,263	\$ (38,642)	\$ (76,560)	\$ 49,655
Share-based compensation expense	—	—	9,199	—	—	—	9,199
Exercise of stock options	—	—	(1,344)	(150,000)	1,452	—	108
Issuance of restricted stock	—	—	(35,740)	(2,853,235)	35,740	—	—
Restricted stock shares canceled/forfeited	—	—	6,788	722,227	(6,788)	—	—
Shares repurchased for tax withholding	—	—	—	394,140	(1,283)	—	(1,283)
Net loss	—	—	—	—	—	(18,104)	(18,104)
Balance at September 30, 2019	112,703,926	\$ 113	\$ 143,647	1,718,395	\$ (9,521)	\$ (94,664)	\$ 39,575

	Common Stock Issued		Additional Paid - in Capital	Treasury Stock		Accumulated Deficit	Total
	Shares	Amount		Shares	Amount		
Balance at June 30, 2018	112,703,926	\$ 113	\$ 151,290	1,970,255	\$ (30,094)	\$ (40,158)	\$ 81,151
Share-based compensation expense	—	—	3,958	—	—	—	3,958
Restricted stock shares canceled/forfeited	—	—	2,765	826,932	(2,765)	—	—
Shares repurchased for tax withholding	—	—	—	50,188	(225)	—	(225)
Net loss	—	—	—	—	—	(178)	(178)
Balance at September 30, 2018	112,703,926	\$ 113	\$ 158,013	2,847,375	\$ (33,084)	\$ (40,336)	\$ 84,706

	Common Stock Issued		Additional Paid - in Capital	Treasury Stock		Accumulated Deficit	Total
	Shares	Amount		Shares	Amount		
Balance as of December 31, 2017	112,703,926	\$ 113	\$ 164,649	3,356,409	\$ (44,384)	\$ (46,581)	\$ 73,797
Share-based compensation expense	—	—	13,311	—	—	—	13,311
Exercise of stock options	—	—	(8,211)	(786,708)	11,765	—	3,554
Issuance of restricted stock	—	—	(24,107)	(1,821,475)	24,107	—	—
Restricted stock shares canceled/forfeited	—	—	12,371	1,034,301	(12,371)	—	—
Share repurchase	—	—	—	507,600	(7,572)	—	(7,572)
Shares repurchased for tax withholding	—	—	—	557,248	(4,629)	—	(4,629)
Net income	—	—	—	—	—	6,245	6,245
Balance as of September 30, 2018	112,703,926	\$ 113	\$ 158,013	2,847,375	\$ (33,084)	\$ (40,336)	\$ 84,706

See notes to unaudited condensed consolidated financial statements



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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net (loss) income	\$ (18,104)	\$ 6,245
Adjustments to reconcile net income to net cash from operating activities:		
Effect of change in revenue recognition	(17,382)	—
Depreciation	4,981	3,934
Amortization of intangible assets	769	758
Amortization of deferred financing costs	752	135
Amortization of discount on notes receivable	—	(148)
Non cash lease expenses	714	—
Loss of fixed asset disposal	318	—
Impairment of intangible assets	1,258	—
Share-based compensation	9,199	13,311
Change in deferred income taxes	—	(1,558)
Increase (decrease) in cash resulting from changes in:		
Inventory	3,952	(4,592)
Prepaid expenses	4,778	(410)
Income tax receivable	(389)	212
Other current assets	(3,515)	855
Accounts payable	(5,444)	3,518
Accrued compensation	(1,948)	(3,832)
Accrued expenses	5,596	14,934
Other liabilities	(1,825)	900
Net cash flows (used in) provided by operating activities	<u>(16,290)</u>	<u>34,262</u>
Cash flows from investing activities:		
Purchases of equipment	(1,055)	(7,590)
Proceeds from sale of property and equipment	—	30
Principal payments from note receivable	2,722	—
Patent application costs	(370)	(474)
Net cash flows provided by (used in) investing activities	<u>1,297</u>	<u>(8,034)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	108	3,554
Stock repurchase under repurchase plan	—	(7,572)
Stock repurchased for tax withholdings on vesting of restricted stock	(1,283)	(4,629)
Deferred financing cost	(6,640)	—
Proceeds from term loan	72,750	—
Repayment of term loan	(938)	—
Payment under capital lease obligations	—	(2)
Net cash flows provided by (used in) financing activities	<u>63,997</u>	<u>(8,649)</u>
Net change in cash	49,004	17,579
Cash and cash equivalents, beginning of period	45,118	27,476
Cash and cash equivalents, end of period	<u>\$ 94,122</u>	<u>\$ 45,055</u>

See notes to unaudited condensed consolidated financial statements

MIMEDX GROUP, INC.  
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

**1. Nature of Business**

MiMedx Group, Inc. (together with its subsidiaries, except where the context otherwise requires, “*MiMedx*,” or the “*Company*”) is an advanced wound care and emerging therapeutic biologics company, developing and distributing human placental tissue allografts with patent-protected processes for multiple sectors of healthcare. The Company derives its products from human placental tissues processed using proprietary processing methodologies. The Company’s mission is to offer products and tissues to help the body heal itself. All of the Company’s products are regulated by the United States Food and Drug Administration (“*FDA*”).

MiMedx is the leading supplier of human placental allografts, which are human tissues that are transplanted from one person (a donor) to another person (a recipient). 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, burn, surgical, orthopedic, spine, sports medicine, ophthalmic and dental sectors of healthcare. The Company’s allograft product families include: dHACM family with AmnioFix® and EpiFix® brands; Umbilical family with EpiCord® and AmnioCord® brands; and Placental Collagen family with AmnioFill™ brands. AmnioFix and EpiFix are tissue allografts derived from amnion and chorion layers of human placental membrane; EpiCord and AmnioCord are tissue allografts derived from umbilical cord tissue. AmnioFill is a placental connective tissue matrix, derived from the placental disc and other placental tissue.

The Company’s business model is focused primarily on the United States of America but the Company is exploring potential future international expansion opportunities.

**2. Significant Accounting Policies**

Please see Note 3 to the Company’s Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 and filed with the SEC on March 17, 2020 (the “*2018 Form 10-K*”) for a description of all significant accounting policies.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“*GAAP*”) from interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Changes to GAAP are established by the Financial Accounting Standards Board (“*FASB*”) in the form of Accounting Standards Updates (“*ASU*”) to the FASB’s Accounting Standards Codification (“*ASC*”). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations for the periods presented have been included. Operating results for the three and nine months ended September 30, 2019 and 2018, are not necessarily indicative of the results that may be expected for the fiscal year. The balance sheet at December 31, 2018, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

These unaudited condensed consolidated financial statements should be read in conjunction with the historical consolidated financial statements of the Company for the year ended December 31, 2018, included in the 2018 Form 10-K.

***Use of Estimates***

The consolidated financial statements have been prepared in accordance with GAAP. Conformity with 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 consolidated financial statements and the reported consolidated statements of operations during the reporting period. Actual results could differ from those estimates. Significant estimates include estimated useful lives and potential impairment of property and equipment and intangible assets, estimate for contingent liabilities, the measurement of right-of-use assets and lease liabilities, management’s assessment of the Company’s ability to continue as a going concern, estimate of fair value of share-based payments and valuation of deferred tax assets.

***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of MiMedx Group, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash and Federal Deposit Insurance Corporation (“**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 and general economic conditions that may affect customers’ ability to pay.

### **Notes Receivable**

Notes receivable represent formal payment agreements with customers which generally arise in situations where amounts shipped and billed have aged significantly as well as the promissory note issued by Stability Biologics, LLC (“**Stability**”) as part of the divestiture of Stability in 2017. The promissory note from Stability was paid in full in the three months ended September 30, 2019. The Company’s notes receivable are included in other current and long-term assets in the consolidated balance sheets and were valued taking into consideration cost of the market participant inputs, market conditions, liquidity, operating results and other qualitative factors.

### **Inventories**

Inventories are valued at the lower of cost or net realizable value, using the first-in, first-out (“**FIFO**”) method. Inventory is tracked through raw material, work-in-process, 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 until 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.

### **Revenue Recognition**

The Company sells its products primarily to individual customers and independent distributors (collectively referred to as “**customers**”). In 2018 and part of 2019, the Company’s control environment was such that it created uncertainty surrounding all of its customer arrangements which affected revenue recognition under the applicable literature. The control environment allowed for the existence of extra-contractual or undocumented terms or arrangements initiated by or agreed to by the Company and other current and former members of Company management at the outset of the transactions (side agreements). Concessions were also agreed to subsequent to the initial sale (e.g. sales above established customer credit limits extended and unusually long payment terms, return or exchange rights, and contingent payment obligations) that called into question the ability to recognize revenue at the time that product was shipped to a customer.

The Company changed its pattern of revenue recognition effective October 1, 2019. The application of the relevant revenue recognition guidance and the pattern of revenue recognition are further discussed below for each period presented.

#### *Fiscal Year Ended December 31, 2018*

The Company adopted ASC Topic 606, Revenue from Contracts with Customers (“**ASC 606**”) on January 1, 2018 by using the modified retrospective method. ASC 606 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied. The Company assessed the impact of the ASC 606 guidance by reviewing customer contracts and accounting policies and practices to identify differences, including identification of the contract and the evaluation of the Company’s performance obligations, transaction price, customer payments, transfer of control and principal versus agent considerations.

ASC 606 establishes a five-step model for revenue recognition. The first of these steps requires the identification of the contract as described in ASC 606-10-25-1. The specific criteria (the “**Step 1 Criteria**”) to this determination are as follows:

- The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations;

- The entity can identify each party's rights regarding the goods or services to be transferred; and
- The entity can identify the payment terms for the goods or services to be transferred.
- The contract has commercial substance.
- It is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The Company concluded that the first three of the above criteria were not met upon shipment of product to the customer, the fourth criteria had been met and the Company acknowledges that there is a degree of uncertainty as to whether last criteria above had been met. Although the parties to the contract may have approved the contract and purchase orders in writing, the Company concluded that upon shipment of products to the customer there is not sufficient evidence that its customers were committed to perform their obligations defined in the contract due to the existence of extra-contractual or undocumented terms or arrangements (e.g., regarding payment terms, right of return, etc.). The Company could not reliably identify each party's rights regarding the products to be transferred upon shipment of those products to customers. The Company's sales personnel continued to make side agreements with customers which directly conflicted with the explicitly stated terms of sale. These side agreements created significant ambiguity around the rights and obligations of both parties involved in the transaction. This practice continued to result in extended payment terms and returns occurring long after the original sale was made. The Company's business practices created an implied right for the customer to demand future, unknown, performance by the Company. As a result, each party (and in particular the Company) could not at the time of product shipment adequately determine its rights regarding the goods transferred as required by ASC 606-10-25-1. Upon shipment of product to the customer, the Company could not reliably identify the payment terms for the products it sold to customers. Although the written payment terms were known to both parties, the Company's pervasive business practices (e.g., informal and undocumented side agreements) overrode the written payment terms and often resulted in extensions of the terms for payment. The Company's contracts did appear to have commercial substance (i.e., the risk, timing, or amount of the Company's future cash flows was expected to change as a result of the contract) upon fulfillment of a purchase order, as most fulfillments have eventually resulted in the Company receiving cash. Therefore, the Company concluded that this criterion appears to be met upon shipment of product to customers (i.e., fulfillment of the purchase order).

The probability that the Company would collect the consideration to which it was entitled in exchange for products shipped to the customer was questionable. In evaluating whether the collectability of an amount of consideration was probable, the Company considered the customer's ability and intention to pay that amount of consideration when it was due. Historically, the customers' intention to pay amounts when due was uncertain in light of the conflicting messages customers received with respect to the payment terms and rights of return and lack of adherence to credit limits. The assessment in ASC 606 is based on whether the customer has the ability and intention to pay for the product being delivered by the Company. Assessment of a customer's ability to pay is typically done through a credit check process and the establishment of a credit limit for each customer by the Company's accounts receivable team. Although the Company did have a process in place to establish credit limits, the evidence previously mentioned indicates that those credit limits were routinely overridden by certain sales personnel and members of management. Despite these overrides, the Company recovered the majority of its billings made in 2018. Furthermore, the quantitative and qualitative evidence gathered by the Company raised considerable doubt as to the collectability of its billings at the time of shipment, but this evidence was not persuasive enough for the Company to conclude that collectability was not probable. As a result of the considerations outlined above, the Company determined that it did not meet the criteria necessary for its revenue arrangements to qualify as "contracts" under the requirements of ASC 606 (i.e., these arrangements did not pass the Step 1 Criteria of the revenue recognition model).

The Company's inability to fulfill these criteria was due to uncertainties of contractual adjustments with customers created by a combination of an inappropriate tone at the top and extra-contractual arrangements. Consequently, as of the date of the Company's adoption of ASC 606 effective January 1, 2018 and for the remainder of the year ended December 31, 2018, the Company concluded that it did not meet the Step 1 Criteria upon physical delivery of the product. Subsequent to the delivery of product, uncertainties surrounding contractual adjustment were not resolved until either: (1) the customer returned the product prior to payment; or (2) the Company received payment from the customer. At that point, the Company determined that an accounting contract existed and the performance obligations of the Company to deliver product and the customer to pay for the product were satisfied. The Company determined the transaction price of its contracts to equal the amount of consideration received from customers less the amount expected to be refunded or credited to customers, which is recognized as a refund liability that is updated at the end of each reporting period for changes in circumstances. The refund liability is included within accrued expenses in our condensed consolidated balance sheet.

We continued to assess new and existing contracts throughout 2019 to determine if the Step 1 Criteria noted above for the determination of a contract under ASC 606 were met for new contracts at the outset of a sales transaction (i.e., upon shipment of product) or for existing contracts at some point within 2019 when all the terms of the arrangement would have been known. Until it was determined if the Step 1 Criteria had been met, revenue recognition continued to be deferred consistent with the assessment for the year ended December 31, 2018.

As further discussed above, the primary factors contributing to the determination in prior periods that the Step 1 Criteria had not been met were the inappropriate tone at the top and the existence of pervasive extra-contractual or undocumented terms or arrangements. These prior business practices and the lack of transparency surrounding them created a systemically implied right for customers to demand future and unknown performance by us. Although some of the former executives were employed by us only through June 2018, we determined that based on the impact of the prior tone at the top, the continued internal sales force strategy and the existing customer base's continued expectations (based on past practice), there would be flexibility with respect to arrangement terms even after delivery of the product so pervasive that all customer arrangements continued to be subject to uncertain modification of terms into 2019.

After identifying the primary factors contributing to the lack of knowledge regarding our customer contractual terms, we began implementing changes in mid-2018 to remediate the pervasive weaknesses in the control environment, followed by gradually implementing measures to empower our compliance, legal, and accounting departments; educate our sales force on appropriate business practices; and communicate our revised terms of sale to customers. We assessed our efforts throughout 2019 to determine when, if at any point, the factors contributing to the inability to satisfy the Step 1 Criteria were sufficiently addressed such that the Step 1 Criteria were met at the time of physical delivery to the customer. Determining when these conditions were effectively satisfied was a matter of judgment; however, we determined that adequate knowledge of the contractual arrangements with our customers did exist in 2019 for new and certain existing arrangements. We did note that there is no single determinative change that overcame the pervasive challenges noted above, but rather an accumulation of efforts that taken together, resulted in sufficient knowledge of contractual relationships both internally and externally with our customers.

To address the tone at the top issues, we noted that proper remediation involved not only the removal of members of management who were setting an inappropriate tone but also the establishment of new management throughout the organization that emphasized a commitment to integrity, ethical values and transparency and have that reinforcement for a sustained period of time. The changes made to management positions throughout the organization and the resulting organization behavior changes were assessed to have been sufficiently addressed by the end of the second quarter of 2019.

To determine when we had either eliminated or had sufficient knowledge to identify any extra-contractual arrangements, we noted that a key factor contributing to our historical lack of visibility into the arrangements with our customers was the failure to adhere to credit limits, payment terms and return policies. The establishment of additional controls and the emphasis on adherence to our existing policies and controls was an iterative process that continued through the first two quarters of 2019. Additional factors contributing to the increased visibility into our contractual arrangements involved further education and training of the sales personnel regarding our terms and conditions as well as monitoring of the sales personnel and customers for compliance with the contractual arrangements. We implemented a disciplined approach to educating the sales personnel regarding the prior practices that were considered unacceptable, ensuring they were knowledgeable regarding current terms and conditions and implementing an open dialogue with the credit and collections department. Monitoring of the customer base was accomplished through a variety of measures including, but not limited to, analysis of payments made within the original terms, levels of returns post-shipment, and various continued communication with the customer account representatives by members of our credit and collections department. During the third quarter of 2019, management determined that these efforts with the sales personnel and the external customers had been in place for a sufficient period of time to provide us an understanding of its contractual arrangements with customers.

Therefore, beginning October 1, 2019 for all new customer arrangements, we determined adequate measures were in place to understand the terms of our contracts with customers such that the Step 1 Criteria would be met prior to shipment of product to the customer or implantation (or surgical insertion) of the products on consignment.

We also reassessed whether the Step 1 Criteria had been met for all shipments of product where payment had not been received as of September 30, 2019. While the measures summarized above provided significant evidence necessary to understand the terms of our contractual arrangements with our customers, certain of these customers continued to exhibit behaviors that resulted in extended periods until cash collection. Such delays in collection suggested that uncertainty regarding extracontractual arrangements may continue, particularly as it relates to payment terms. As a result, we concluded the following existing arrangements, which remained unpaid at September 30, 2019.

- For customer arrangements where collection was considered probable within 90 days from the date of the original shipment or implantation of the products, we concluded the Step 1 Criteria were met (the “**Transition Adjustment**”).
- For the remaining customer arrangements (the “**Remaining Contracts**”), we concluded that, due to the uncertainty that extracontractual arrangements may continue, the Step 1 Criteria would not be satisfied until we receive payment from the customer. At that point, we determined that an accounting contract would exist and our performance obligations to deliver product to the customer to pay for the product would be satisfied. As of September 30, 2019, upon reassessment, we concluded that the Step 1 Criteria continued to not be met due to the same circumstances described above for these contracts.

We continued to record the deferred cost of sales on the arrangements that failed the Step 1 Criteria where collectability was reasonably assured and will recognize the costs when the related revenue is recognized. We also continued to offset deferred revenue with the associated accounts receivable obligations for these arrangements that continued to fail the Step 1 Criteria.

For all customer transactions concluded to meet the Step 1 Criteria, we then assessed the remaining criteria of ASC 606 to determine the proper timing of revenue recognition.

Under ASC 606, we recognize revenue following the five-step model: (i) identify the contract with a customer (the Step 1 Criteria); (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. As noted above, beginning October 1, 2019, we determined that we had met the Step 1 Criteria for new and certain existing arrangements. We also determined that the performance obligation was met upon delivery of the product to the customer, or at the time the product is implanted for products on consignment, at which point we determined we will collect the consideration we are entitled to in exchange for the product transferred to the customer. As a result, we recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied, generally upon shipment of the product to the customer. The nature of our contracts gives rise to certain types of variable consideration, including rebates and other discounts. We include estimated amounts of variable consideration in the transaction price to the extent that it is probable there will not be a significant reversal of revenue. Estimates are based on historical or anticipated performance and represent our best judgment at the time of sale. We have consignment agreements with several customers and distributors which allow us to better market our products by moving them closer to the end user. We determined that we have fulfilled our performance obligation once control of the product has been delivered to the customer, which occurs simultaneously with the product being implanted.

We act as the principal in all of our customer arrangements and therefore record revenue on a gross basis. Shipping is considered immaterial in the context of the overall customer arrangement, and damages or loss of goods in transit are rare. Therefore, shipping is not deemed a separately recognized performance obligation and we have elected to treat shipping costs as activities to fulfill the promise to transfer the product. We maintain a returns policy that allows our customers to return product that is consigned, damaged or non-conforming, ordered in error, or due to a recall. The estimate of the provision for returns is based upon historical experience with actual returns. Our payment terms for customers are typically 30 to 60 days from receipt of title of the goods.

The Company acts as the principal in all of its customer arrangements and therefore records revenue on a gross basis. Shipping is considered immaterial in the context of the overall customer arrangement, and damages or loss of goods in transit are rare. Therefore, shipping is not deemed a separately recognized performance obligation. The Company maintains a returns policy that allows its customers to return product that is consigned, damaged or non-conforming, ordered in error, or due to a recall. The estimate of the provision for returns is based upon historical experience with actual returns. The Company’s payment terms for customers are typically 30 to 60 days from receipt of title of the goods.

Based on the assessment noted above, the Company concluded that through the first two quarters of 2019, the pattern of revenue recognition under ASC 606 remained the same as the application for the year ended December 31, 2018; that is, revenue was deferred until the product was paid for or returned. In order to account for the determination that the Step 1 Criteria had been met during the third quarter of 2019, for certain existing customer arrangements, the Company recorded the following (in thousands):

	Amounts Invoiced and Not Collected	Deferred Cost of Sales
Amounts prior to Transition Adjustment	\$ 48,883	\$ 6,415
Revenue recognized related to amounts invoiced and not collected at September 30, 2019:		
Transition Adjustment during the three months ended September 30, 2019	(21,385)	(2,565)
Write-off of customer contracts where collection is no longer reasonably assured (a)	(10,273)	(1,438)
Amounts as of September 30, 2019	<u>\$ 17,225</u>	<u>\$ 2,412</u>

(a) The Company determined that for approximately \$10.3 million of existing contracts where payment had not been received, collection was no longer reasonably assured. As a result, \$1.4 million of deferred cost of sales relating to these customers was written off. Any future collections relating to these customer contracts will be recorded as revenue at the time payment is received.

### **GPO Fees**

The Company sells to Group Purchasing Organization (“GPO”) members who transact directly with the Company at GPO-agreed pricing. GPOs are funded by administrative fees that are paid by the Company. These fees are set as a percentage of the purchase volume, which is typically 3% of sales made to the GPO members. Prior to adoption of ASC 606, for all periods presented prior to January 1, 2018, the Company presented the administrative fees paid to GPOs as a reduction of revenues because the benefit received by the Company in exchange for the GPO fees was not sufficiently separable from the GPO member’s purchase of the Company’s products. Upon adoption of ASC 606, the Company concluded that although it benefited from the access that a GPO provides to its members, this benefit was neither distinct from other promises in the Company’s contracts with GPOs nor was the benefit separable from the sale of goods by the Company to the end customer. Therefore, the Company continued presenting fees paid to GPOs as a reduction of product revenues.

### **Cost of Sales**

Cost of sales includes all costs directly related to bringing the Company’s products to their final selling destination. Amounts include direct and indirect costs to manufacture products including raw materials, personnel costs and direct overhead expenses necessary to convert collected tissues into finished goods, product testing costs, quality assurance costs, facility costs associated with the Company’s manufacturing and warehouse facilities, depreciation, freight charges, costs to operate equipment and other shipping and handling costs for products shipped to customers.

Prior to the Transition, deferred cost of sales resulted from transactions where title to inventory transferred from the Company to the customer, but for which all revenue recognition criteria have not yet been met. Once all revenue recognition criteria have been met, the revenue and associated cost of sales is recognized. These amounts have been recorded within other current assets on the condensed consolidated balance sheet in the amounts of \$2.4 million and \$4.3 million, as of September 30, 2019 and December 31, 2018.

### **Leases**

Effective January 1, 2019, the Company accounts for its leases under ASC 842, “Leases”. The Company determines if an arrangement is, or contains, a lease at inception. Right-of-use assets and the related liabilities result from operating leases. Such balances were included in Right of use asset, Other current liabilities and Other liabilities, respectively, in the consolidated balance sheet as of September 30, 2019.

Operating lease assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses the estimated incremental borrowing rate in determining the present value of lease payments. Variable components of the lease payments such as fair market value adjustments, utilities, and maintenance costs are expensed as incurred and not included in determining the present value of lease liabilities, which will include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. As an accounting policy election, the Company excludes short-term leases having initial terms of 12 months or fewer. Lease expense is recognized on a straight-line basis over the lease term. The Company continues to

account for leases in the consolidated balance sheet as of December 31, 2018 and the condensed consolidated statements of operations for the three and nine months ended September 30, 2018 under ASC 840. See Note 6, “Leases” for further information regarding lease obligations.

### **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 and are included in Intangible Assets in the Condensed Consolidated Balance Sheets. The Company capitalized approximately \$0.4 million and \$0.5 million of patent costs during the first nine months of 2019 and 2018, respectively.

### **Treasury Stock**

The Company accounts for the purchase of treasury stock under the cost method. Treasury stock which is reissued for the exercise of option grants and the issuance of restricted stock grants is accounted for on a FIFO basis.

### **Recently Issued and Adopted Accounting Standards**

In February 2016, FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which amended the guidance on accounting for leases. The FASB issued this update to increase transparency and comparability among organizations. This update requires the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements. The Company adopted the ASU effective January 1, 2019 using the additional (optional) approach, in accordance with ASU 2018-11 Leases (Topic 842): Targeted Improvements. The Company initially recorded a right of use asset and lease liability of \$4.3 million, net of the \$0.9 million rent credit, and \$5.2 million, in Right of use asset, Other current liabilities and Other liabilities for the non-current portion, respectively. There was no effect on opening retained earnings, and the Company continues to account for leases in the prior period financial statements under ASC Topic 840.

In adopting the new lease standard, the Company elected the package of practical expedients permitted under the adoption of the new standard, which allowed the Company to account for existing leases under their current classification, as well as omit any new costs classified as initial direct costs, under the new standard. The Company also elected the practical expedient allowing an accounting policy election by class of underlying asset, to account for separate lease and non-lease components as a single lease component. Please see Note 6 for additional information on leases.

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 adopted this standard as of January 1, 2018 and applied the ASU retrospectively for all periods presented.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment”. The update eliminates Step 2 from the goodwill impairment test. This ASU is effective for fiscal years beginning after December 15, 2019. The amendments in this update should be applied on a prospective basis. The Company adopted this standard as of January 1, 2017.

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220)”, to address certain income tax effects in Accumulated Other Comprehensive Income (“AOCI”) resulting from the tax reform enacted in 2017. The amended guidance provides an option to reclassify tax effects within AOCI to retained earnings in the period in which the effect of the tax reform is recorded. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods. The Company has adopted this ASU as of January 1, 2019, which did not have any impact on the Company’s results of operations or financial condition as there were no balances in AOCI that are tax effected.

In June 2018, the FASB issued ASU 2018-07, “Compensation-Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting” (“ASU 2018-07”), which simplifies the accounting for share-based payments to non-employees by aligning it with the accounting for share-based payments to employees, with certain exceptions. Under the new guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date. ASU 2018-07 is effective for interim and annual reporting periods beginning after December 15, 2018 and early adoption was permitted. The Company adopted the new standard on January 1, 2019. The adoption of ASU 2018-07 did not have a material impact on the Company’s consolidated financial statements and related disclosures.

### **Recently Issued Accounting Pronouncements Not Yet Adopted**



In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*,” that introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. This includes accounts receivable, trade receivables, loans, held-to-maturity debt securities, net investments in leases and certain off-balance sheet credit exposures. The guidance also modifies the impairment model for available-for-sale debt securities. This ASU is effective for MiMedx and all public filers which do not qualify as smaller reporting companies for fiscal years beginning after December 15, 2019. The Company does not expect adoption to materially affect the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “*Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*” (“**ASU 2018-13**”), which changes the fair value measurement disclosure requirements of ASC 820 “Fair Value Measurement,” based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting-Chapter 8: “Notes to Financial Statements,” including consideration of costs and benefits. The ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019. Early adoption is permitted for any eliminated or modified disclosures upon issuance of ASU 2018-13. The Company is evaluating the impact the adoption of ASU 2018-13 will have on its consolidated financial statements.

All other ASUs issued and not yet effective for the nine months ended September 30, 2019, 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

#### Working Capital

As of September 30, 2019, the Company had approximately \$94.1 million of cash and cash equivalents. The Company reported total current assets of approximately \$134.0 million and current liabilities of approximately \$73.4 million as of September 30, 2019.

#### Overall Liquidity and Capital Resources

The Company’s largest cash requirement for the nine months ended September 30, 2019 was cash for general working capital needs. In addition, the Company’s other cash requirements included capital expenditures and investigation and restatement expenses. The Company funded its cash requirements through its existing cash reserves, and the BT Term Loan (as defined below) that closed in June 2019. The Company believes that its anticipated cash from operating and financing activities and existing cash and cash equivalents will enable the Company to meet its operational liquidity needs and fund its planned investing activities for the next year.

### 4. Inventory

Inventory consisted of the following items (in thousands):

	September 30, 2019	December 31, 2018
Raw materials	\$ 315	\$ 516
Work in process	7,085	11,123
Finished goods	5,626	4,936
Inventory, gross	13,026	16,575
Reserve for obsolescence	(992)	(589)
Inventory, net	\$ 12,034	\$ 15,986

### 5. Property and Equipment

Property and equipment consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Leasehold improvements	\$ 5,312	\$ 4,804
Lab and clean room equipment	14,429	13,787
Furniture and office equipment	15,086	15,145
Construction in progress	765	1,507
Property and equipment, gross	35,592	35,243
Less accumulated depreciation	(22,412)	(17,819)
Property and equipment, net	\$ 13,180	\$ 17,424

Depreciation expense for the nine months ended September 30, 2019 and 2018, was approximately \$5.0 million and \$3.9 million, respectively, and approximately \$1.6 million and \$1.4 million for the three months ended September 30, 2019 and 2018, respectively.

### 6. Leases

As discussed in Note 2, on January 1, 2019, MiMedx adopted new guidance for the accounting and reporting of leases. The Company has operating leases primarily for corporate offices, vehicles, and certain equipment. Such leases do not require any contingent rental payments, impose any financial restrictions, or contain any residual value guarantees. The Company determines if an arrangement is or contains a lease at inception.

Under ASC 842 transition guidance, the Company has not elected the hindsight practical expedient to determine the lease term for existing leases, which permits companies to consider available information prior to the effective date of the new guidance as to the actual or likely exercise of options to extend or terminate the lease. Certain of the Company's leases include renewal options and escalation clauses; renewal options have not been included in the calculation of the lease liabilities and right of use assets as the Company is not reasonably certain to exercise the options.

Lease expense for operating lease payments is recognized on a straight-line basis over the term of the lease. Operating lease assets and liabilities are recognized based on the present value of lease payments over the lease term. Since most of the Company's leases do not have a readily determinable implicit discount rate, the Company uses its incremental borrowing rate to calculate the present value of lease payments. As a practical expedient, the Company has made an accounting policy election not to separate lease components from non-lease components in the event that the agreement contains both. The Company includes both the lease and non-lease components for purposes of calculating the right-of-use asset and related lease liability.

The Company does not act as a lessor or have any leases classified as financing leases.

Operating lease cost for the three and nine months ended September 30, 2019 was \$0.4 million and \$1.1 million, respectively, and was recorded in Selling, general, and administrative expenses. Interest on lease obligations was for the three and nine months ended September 30, 2019 \$0.1 million and \$0.4 million, respectively, and was recorded in Selling, general, and administrative expenses. Cash paid for amounts included in the measurement of operating lease liabilities for the three and nine months ended September 30, 2019 was \$0.4 million and \$1.3 million, respectively. The amortization of leased assets for the three and nine months ended September 30, 2019 was \$0.2 million and \$0.7 million, respectively.

Supplemental balance sheet information related to operating leases is as follows (amounts in thousands, except lease term and discount rate):

	September 30, 2019
<b>Assets</b>	
Right of use asset	\$ 3,630
<b>Liabilities</b>	
Short term lease liability	\$ 1,140
Long term lease liability	\$ 3,213
Weighted-average remaining lease term (years)	3.3
Weighted-average discount rate	11.5%

Maturities of operating leases liabilities are as follows (amounts in thousands):

Year ending December 31,	Maturities
2019 (excluding the nine months ended September 30, 2019)	\$ 386
2020	1,561
2021	1,528
2022	1,552
2023	196
Thereafter	—
Total lease payments	5,223
Less: imputed interest	(870)
	\$ 4,353

Future minimum lease payments under operating leases at December 31, 2018 and thereafter were as follows (amounts in thousands):

Year ending December 31,	
2019	\$ 1,640
2020	1,579
2021	1,625
2022	1,673
2023	205
Thereafter	—
<b>Total lease payments</b>	<b>\$ 6,722</b>

## 7. Intangible Assets

Intangible assets are summarized as follows (in thousands):

	September 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortized intangible assets</b>						
Licenses	\$ 1,414	\$ (1,166)	\$ 248	\$ 1,414	\$ (1,066)	\$ 348
Patents and know how	9,093	(4,908)	4,185	9,180	(4,475)	4,705
Customer and supplier relationships	3,761	(2,351)	1,410	4,271	(2,202)	2,069
Non-compete agreements	120	(60)	60	120	(38)	82
<b>Total amortized intangible assets</b>	<b>\$ 14,388</b>	<b>\$ (8,485)</b>	<b>\$ 5,903</b>	<b>\$ 14,985</b>	<b>\$ (7,781)</b>	<b>\$ 7,204</b>
<b>Unamortized intangible assets</b>						
Trade names and trademarks	\$ 1,008		\$ 1,008	\$ 1,008		\$ 1,008
Patents in process	1,041		1,041	1,396		1,396
<b>Total intangible assets</b>	<b>\$ 16,437</b>		<b>\$ 7,952</b>	<b>\$ 17,389</b>		<b>\$ 9,608</b>

Amortization expense for the nine months ended September 30, 2019 and 2018, was approximately \$0.8 million and \$0.8 million, respectively, and \$0.3 million and \$0.3 million for the three months ended September 30, 2019 and 2018, respectively. Patents and patents in process related write-downs due to abandonment for the three and nine months ended September 30, 2019 was \$0.0 million and \$0.8 million, respectively in Selling, general and administrative. The Company incurred impairment losses related to customer relationships of \$0.0 million and \$0.5 million for the three and nine months ended September 30, 2019, respectively.

Expected future amortization of intangible assets as of September 30, 2019, is as follows (in thousands):

Year ending December 31,	Estimated Amortization Expense
2019 (excluding the nine months ended September 30, 2019)	\$ 246
2020	985
2021	977
2022	955
2023	954
Thereafter	1,786
	<u>\$ 5,903</u>

## 8. Accrued Expenses

Accrued expenses include of the following (in thousands):

	September 30, 2019	December 31, 2018
Legal costs	\$ 16,576	\$ 10,056
Settlement costs	7,944	8,673
Pricing adjustment settlement with Veterans Affairs	6,894	6,894
Estimated returns	2,365	2,325
Accrued clinical trials	1,337	1,233
External commissions	1,139	962
Other	1,183	1,699
Total	<u>\$ 37,438</u>	<u>\$ 31,842</u>

## 9. Long Term Debt

### *Credit Agreement*

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 established 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 \$50.0 million. The Credit Agreement also provided for an uncommitted incremental facility of up to \$35.0 million, which could 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 were guaranteed by the Company’s subsidiaries. The obligations of the loan parties under the Credit Agreement and the other credit documents were 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 bore interest at LIBOR plus 1.5% to 2.25%. Fees paid in connection with the initiation of the credit facility totaled approximately \$0.5 million. These deferred financing costs were amortized to interest expense over the three-year life of the facility. The Credit Agreement contained customary representations, warranties, covenants and events of default, including restrictions on certain payments of dividends by the Company.

On August 31, 2018, the lending parties’ terminated their commitments to make loans and issue letters of credit under the Credit Agreement due to the Company’s failure to timely file its periodic reports with the SEC. Accordingly, since then, the Company has not had the ability to borrow under the Credit Agreement. There were no outstanding borrowings or letters of credit issued under the Credit Agreement at the time of termination, and the Company never drew down any amounts under the credit facility during the entire term of the Credit Agreement. No termination penalties were paid as a result of the termination.

### *BT Term Loan*

On June 10, 2019, the Company entered into a Term Loan Agreement (the “**BT Loan Agreement**”) with Blue Torch Finance LLC (“**Blue Torch**”), as administrative agent and collateral agent, to borrow funds with a face value of \$75.0 million (the “**BT Term Loan**”), of which the full amount has been borrowed and funded. The proceeds from the BT Term Loan were used (i) for working capital and general corporate purposes and (ii) to pay transaction fees, costs and expenses incurred in connection with the BT Term Loan and the related transactions. The BT Term Loan would have matured on June 20, 2022 and was repayable in quarterly installments of \$0.9 million; the balance was due on June 20, 2022. Blue Torch had a first-priority security interest in substantially all of the Company’s assets. The BT Term Loan was issued net of the original issue discount of \$2.3 million. The Company also incurred \$6.7 million of deferred financing costs.

The interest rate applicable to any borrowings under the BT Term Loan accrued at a rate equal to LIBOR plus a margin of 8.00% per annum or (if LIBOR is not available) a prime rate plus a margin of 7.00% per annum. The BT Term Loan had an interest rate equal to 10.46% at the time the BT Loan Agreement was executed. The interest as of September 30, 2019 was 10.33%.

The BT Loan Agreement originally contained financial covenants requiring the Company, on a consolidated basis, to maintain the following:

- Maximum Total Leverage Ratio, defined as funded debt divided by consolidated adjusted EBITDA, of not more than 3.0 to 1.0 as of the last day of the previous four consecutive fiscal quarters.
- Minimum Liquidity, defined as unrestricted cash and cash equivalents, of less than \$40.0 million as of the last business day of each fiscal month following the BT Term Loan closing date through and including the fiscal month ending May 31, 2020. For fiscal months beginning June 30, 2020, the Company was not permitted to have liquidity of less than \$30.0 million. Beginning with the fiscal month ending December 31, 2020, if the total leverage ratio is less than 2.50 to 1.0 as of the last business day of any fiscal month, the Company's liquidity shall not be less than \$20.0 million.

The BT Loan Agreement also specified that any prepayment of the loan, voluntary or mandatory, as defined in the BT Loan Agreement, subjected MiMedx to a prepayment penalty as of the date of the prepayment with respect to the BT Term Loan of:

- During the period from June 10, 2019 through June 10, 2020, an amount equal to 3% of the principal amount of the BT Term Loan prepaid on such date; and
- During the period from June 11, 2020 through June 10, 2021, an amount equal to 2% of the principal amount of the BT Term Loan prepaid on such date.

Principal prepayments after June 10, 2021 were not subject to a prepayment penalty.

The BT Loan Agreement also included events of default customary for facilities of this type, and upon the occurrence of such events of default, subject to customary cure rights, all outstanding loans under the BT Loan Agreement may be accelerated and/or the lenders' commitments terminated.

The balances of the BT Term Loan as of September 30, 2019 was as follows (amounts in thousands):

	September 30, 2019	
	Current portion	Long-term
Liability component - principal	\$ 3,750	\$ 70,313
Original issue discount	—	(2,061)
Deferred financing cost	—	(6,078)
Liability component - net carrying value	\$ 3,750	\$ 62,174

Interest expense related to the BT Term Loan, included in Interest income (expense), net in the Consolidated Statements of Operations was as follows (amounts in thousands):

	For the Three Months Ended	For the Nine Months Ended
	September 30, 2019	
Interest expense - stated interest rate	2,024	2,417
Interest expense - amortization of original issue discount	158	189
Interest expense - amortization of deferred financing costs	478	563
Total term loan interest expense	\$ 2,660	\$ 3,169

The future principal payments for the BT Term Loan as of September 30, 2019 are as follows (in thousands):

Year ending December 31,	Principal
2019 (excluding the nine months ended September 30, 2019)	\$ 938
2020	3,750
2021	3,750
2022	65,625
2023	—
Thereafter	—
<b>Total Long Term Debt</b>	<b>\$ 74,063</b>

As of September 30, 2019, the fair value of the Company's BT Term Loan was \$71.0 million. This valuation was calculated based on a series of Level 2 and Level 3 inputs by calculating a discount rate based on the credit risk spread of debt instruments of a similar risk character in reference to U.S. Treasury instruments with identical securities, with an incremental risk premium for Company-specific risk factors. The remaining cash flows associated with the BT Term Loan were discounted to September 30, 2019 with this calculated discount rate to derive the fair value as of that date.

#### **BT Term Loan Amendment**

As described below in Note 15, "Subsequent Events," on April 22, 2020, the Company amended its BT Loan Agreement with Blue Torch. Additionally, on July 2, 2020, a portion of the proceeds from the Preferred Stock Transaction (as defined below) and the Hayfin Loan Transaction (as defined below) was used to repay the outstanding balance of principal, accrued but unpaid interest, and prepayment premium under the BT Loan Agreement. In connection with the repayment of the BT Term Loan, the Company terminated the BT Loan Agreement.

#### **10. Net Income (Loss) Per Share**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 12,379	\$ (178)	\$ (18,104)	\$ 6,245
Denominator for basic earnings per share - weighted average shares	107,157,561	105,935,736	106,929,643	104,403,622
Effect of dilutive securities: Stock options and restricted stock outstanding(a)	2,432,447	998,964	1,635,797	4,773,955
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	109,590,008	105,935,736	106,929,643	109,177,577
Income (loss) per common share - basic	\$ 0.12	\$ 0.00	\$ (0.17)	\$ 0.06
Income (loss) per common share - diluted	\$ 0.11	\$ 0.00	\$ (0.17)	\$ 0.06

(a) Securities outstanding that are included in the computation above, utilizing the treasury stock method are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Outstanding Stock Options	848,507	936,844	903,344	4,168,720
Restricted Stock Awards	1,583,940	62,120	732,453	605,235
	2,432,447	998,964	1,635,797	4,773,955

## 11. Income taxes

The effective tax rates for the Company was (2.6)% and 137.7% for the three months ended September 30, 2019 and September 30, 2018, respectively.

The effective tax rates for the Company of 1.2% and (17.2)% for the nine months ended September 30, 2019 and September 30, 2018, respectively.

This difference is primarily due to the full valuation allowance recorded during this period in 2019. There was no valuation allowance recorded in the same period of 2018 and the effective tax rate reflects certain discrete tax items. In addition, the Company recorded significant permanent differences in 2018 related to stock-based compensation.

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

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

	Nine Months Ended September 30,	
	2019	2018
Cash paid for interest	\$ 2,417	\$ 108
Income taxes paid	308	596

## 13. Contractual Commitments and Contingencies

### *Contractual Commitments*

In addition to the leases noted under Note 6 “Leases,” the Company has commitments for meeting space. These leases expire over 3 to 3.5 years following September 30, 2019, and generally contain renewal options. The Company anticipates that most of these leases will be renewed or replaced upon expiration.

Rent expense for the nine months ended September 30, 2019 and 2018, was approximately \$1.1 million and \$1.1 million, respectively, and was approximately \$0.3 million and \$0.4 million for the three months ended September 30, 2019 and 2018, respectively, and is allocated among cost of sales, research and development and selling, general and administrative expenses.

### *Letters of Credit*

Previously, as a condition of the leases for the Company’s facilities, the Company was obligated under standby letters of credit in the amount of approximately \$0.1 million. The Company amended its lease during 2018 to eliminate this obligation.

### *Litigation and Regulatory Matters*

In the ordinary course of business, the Company and its subsidiaries are parties to numerous civil claims and lawsuits and subject to regulatory examinations, investigations, and requests for information. Some of these matters involve claims for substantial amounts. The Company’s experience has shown that the damages alleged by plaintiffs or claimants are often overstated, based on unsubstantiated legal theories, unsupported by facts, and/or bear no relation to the ultimate award that a court might grant. Additionally, the outcome of litigation and regulatory matters and the timing of ultimate resolution are inherently difficult to predict. These factors make it difficult for the Company to provide a meaningful estimate of the range of reasonably possible outcomes of claims in the aggregate or by individual claim. However, on a case-by-case basis, reserves are established for those legal claims in which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The Company’s financial statements at September 30, 2019 reflect the Company’s current best estimate of probable losses associated with these matters, including costs to comply with various settlement agreements, where applicable. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved. For more information regarding the Company’s legal proceedings, refer to the disclosure under Item 3, “Legal Proceedings” and Note 16, “Commitments and Contingencies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Form 10-K”).

The following is a description of certain litigation and regulatory matters:

## Shareholder Derivative Suits

On December 6, 2018, the United States District Court for the Northern District of Georgia entered an order consolidating three shareholder derivative actions (*Evans v. Petit, et al.* filed September 25, 2018, *Georgalas v. Petit, et al.* filed September 27, 2018, and *Roloson v. Petit, et al.* filed October 22, 2018) that had been filed in the Northern District of Georgia. On January 22, 2019, plaintiffs filed a verified consolidated shareholder derivative complaint. The consolidated action sets forth claims of breach of fiduciary duty, corporate waste and unjust enrichment against certain former officers, and certain current and former directors, of the Company: Parker H. Petit, William C. Taylor, Michael J. Senken, John E. Cranston, Alexandra O. Haden, Joseph G. Bleser, J. Terry Dewberry, Charles R. Evans, Larry W. Papasan, Luis A. Aguilar, Bruce L. Hack, Charles E. Koob, Neil S. Yeston and Christopher M. Cashman. The allegations generally involve claims that the defendants breached their fiduciary duties by causing or allowing the Company to misrepresent its financial statements as a result of improper revenue recognition. The Company filed a motion to stay on February 18, 2019, pending the completion of the investigation by the Company's Special Litigation Committee. The Special Litigation Committee completed its investigation relating to this action and filed an executive summary of its findings with the Court on July 1, 2019. The parties (together with parties from the Hialeah derivative lawsuit, the Nix and Demaio derivative lawsuit, and the Murphy derivative lawsuit, each described below) held a mediation on February 11, 2020. Following continued discussions, on May 1, 2020, the parties notified the Court that plaintiffs and the Company had reached an agreement in principle to settle this consolidated derivative action, which settlement also encompasses all claims asserted in the Hialeah derivative lawsuit, the Nix and Demaio derivative lawsuit, and the Murphy derivative lawsuit. As of the date of the filing of this Form 10-K, the parties are drafting, and intend to file, a stipulation of settlement and motion seeking preliminary approval of the settlement.

On October 29, 2018, the City of Hialeah Employees Retirement System ("**Hialeah**") filed a shareholder derivative complaint in the Circuit Court for the Second Judicial Circuit in and for Leon County, Florida (the "**Florida Court**"). The complaint alleges claims for breaches of fiduciary duty and unjust enrichment against certain former officers, and certain current and former directors, of the Company: Parker H. Petit, William C. Taylor, Michael J. Senken, John E. Cranston, Alexandra O. Haden, Joseph G. Bleser, J. Terry Dewberry, Charles R. Evans, Bruce L. Hack, Charles E. Koob, Larry W. Papasan, and Neil S. Yeston. The allegations generally involve claims that the defendants breached their fiduciary duties by causing or allowing the Company to misrepresent its financial statements as a result of improper revenue recognition. The Company moved to stay the action on February 7, 2019, to allow the prior-filed consolidated derivative action in the Northern District of Georgia to be resolved first and to allow the Company's Special Litigation Committee time to complete its investigation. The Company also filed a motion to dismiss on April 8, 2019. As discussed above, the plaintiff participated in the mediation that took place in connection with the prior-filed consolidated derivative action in the Northern District of Georgia and is a party to the agreement in principle to settle that consolidated derivative action. The agreement in principle provides that the plaintiff in this action will file a notice of dismissal to dismiss its action with prejudice within seven calendar days after the date that the judgment entered by the Northern District of Georgia becomes final.

On May 15, 2019, two individuals purporting to be shareholders of the Company filed a shareholder derivative complaint in the Superior Court for Cobb County, Georgia. (*Nix and Demaio v. Evans, et al.*) The complaint alleges claims for breaches of fiduciary duty, corporate waste and unjust enrichment against certain current and former directors and officers of the Company: Parker H. Petit, William C. Taylor, Michael J. Senken, John E. Cranston, Alexandra O. Haden, Chris Cashman, Lou Roselli, Mark Diaz, Charles R. Evans, Luis A. Aguilar, Joseph G. Bleser, J. Terry Dewberry, Bruce L. Hack, Charles E. Koob, Larry W. Papasan and Neil S. Yeston. The allegations generally involve claims that the defendants breached their fiduciary duties by causing or allowing the Company to misrepresent its financial statements as a result of improper revenue recognition. The Court ordered this matter stayed pending the resolution of the consolidated derivative suit pending in the Northern District of Georgia. As discussed above, the plaintiff participated in the mediation that took place in connection with the prior-filed consolidated derivative action in the Northern District of Georgia and is a party to the agreement in principle to settle that consolidated derivative action. The agreement in principle provides that the plaintiffs in this action will file a notice of dismissal to dismiss their action with prejudice within seven calendar days after the date that the judgment entered by the Northern District of Georgia becomes final.

On August 12, 2019, John Murphy filed a shareholder derivative complaint in the United States District Court for the Southern District of Florida (*Murphy v. Petit, et al.*). The complaint alleged claims for breaches of fiduciary duty and unjust enrichment against certain former officers, and certain current and former directors, of the Company: Parker H. Petit, William C. Taylor, Michael J. Senken, John E. Cranston, Alexandra O. Haden, Charles R. Evans, Luis A. Aguilar, Joseph G. Bleser, J. Terry Dewberry, Bruce L. Hack, Charles E. Koob, Larry W. Papasan and Neil S. Yeston. The allegations generally involve claims that the defendants breached their fiduciary duties by causing or allowing the Company to misrepresent its financial statements as a result of improper revenue recognition. The Company filed a motion to transfer this action to the Northern District of Georgia. Prior to resolution of that motion, the plaintiff voluntarily dismissed this action without prejudice. As discussed above, the plaintiff participated in the mediation that took place in connection with the prior-filed consolidated derivative action in the Northern District of Georgia and is a party to the agreement in principle to settle that consolidated derivative action. Under the agreement in principle, the plaintiff has agreed that this action shall not be reinstated and, after the judgment entered by the Northern District of Georgia becomes final, this action shall be deemed dismissed with prejudice.



## *Securities Class Action*

On January 16, 2019, the United States District Court for the Northern District of Georgia entered an order consolidating two purported securities class actions (*MacPhee v. MiMedx Group, Inc., et al.* filed February 23, 2018 and *Kline v. MiMedx Group, Inc., et al.* filed February 26, 2018). The order also appointed Carpenters Pension Fund of Illinois as lead plaintiff. On May 1, 2019, the lead plaintiff filed a consolidated amended complaint, naming as defendants the Company, Michael J. Senken, Parker H. Petit, William C. Taylor, Christopher M. Cashman and Cherry Bekaert & Holland LLP. The amended complaint (the “**Securities Class Action Complaint**”) alleged violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. It asserted a class period of March 7, 2013 through June 29, 2018. Following the filing of motions to dismiss by the various defendants, the lead plaintiff was granted leave to file an amended complaint. The lead plaintiff filed its amended complaint against the Company, Michael Senken, Pete Petit, William Taylor, and Cherry Bekaert & Holland (Christopher Cashman was dropped as a defendant) on March 30, 2020; defendants filed motions to dismiss on May 29, 2020.

## **Investigations**

### *SEC Investigation*

On April 4, 2017, the Company received a subpoena from the SEC requesting information related to, among other things, the Company’s recognition of revenue, practices with certain distributors and customers, its internal accounting controls and certain employment actions. The Company cooperated with the SEC in its investigation (the “**SEC Investigation**”). In November 2019, the SEC brought claims against the Company and the Company’s former officers Parker H. Petit, Michael J. Senken, and William C. Taylor. The SEC alleged that from 2013 to 2017, the Company prematurely recognized revenue from sales to its distributors and exaggerated its revenue growth. The SEC’s complaint also alleged that the Company improperly recognized revenue because its former CEO and COO entered into undisclosed side arrangements with certain distributors. These side arrangements allowed distributors to return product to the Company or conditioned distributors’ payment obligations on sales to end users. The SEC complaint further alleged that the Company’s former CEO, COO, and CFO allegedly covered up their scheme for years, including after the Company’s former controller raised concerns about the Company’s accounting for specific distributor transactions. The SEC also alleged that the Company’s former CEO, COO, and CFO all misled the Company’s outside auditors, members of the Company’s Audit Committee, and outside lawyers who inquired about these transactions. The SEC brought claims against the Company and its former CEO, COO, and CFO for violating the antifraud, reporting, books and records, and internal controls provisions of the federal securities laws. The SEC also brought claims against the Company’s former CEO, COO, and CFO for lying to the Company’s outside auditors. In November 2019, without admitting or denying the SEC’s allegations, the Company settled with the SEC by consenting to the entry of a final judgment that permanently restrains and enjoins the Company from violating certain provisions of the federal securities laws. As part of the resolution, the Company paid a civil penalty of \$1.5 million. The settlement concluded, as to the Company, the matters alleged by the SEC in its complaint. The SEC’s litigation continues against the Company’s former officers.

### *United States Attorney’s Office for the Southern District of New York (“USAO-SDNY”) Investigation*

The USAO-SDNY conducted an investigation into topics similar to those at issue in the SEC Investigation. The USAO-SDNY requested that the Company provide it with copies of all information the Company furnished to the SEC and made additional requests for information. The USAO-SDNY conducted interviews of various individuals, including employees and former employees of the Company. The USAO-SDNY issued indictments in November 2019 against former executives Messrs. Petit and Taylor for securities fraud and conspiracy to commit securities fraud, to make false filings with the SEC, and improperly influence the conduct of audits relating to alleged misconduct that resulted in inflated revenue figures for fiscal 2015. The Company is cooperating with the USAO-SDNY.

### *Department of Veterans’ Affairs Office of Inspector General (“VA-OIG”) and Civil Division of the Department of Justice (“DOJ-Civil”) Subpoenas and/or Investigations*

VA-OIG has issued subpoenas to the Company seeking, among other things, information concerning the Company’s financial relationships with VA clinicians. DOJ-Civil has requested similar information. The Company has cooperated fully and produced responsive information to VA-OIG and DOJ-Civil. Periodically, VA-OIG has requested additional documents and information regarding payments to individual VA clinicians. Most recently, on June 3, 2020, the Company received a subpoena from the VA-OIG requesting information regarding the Company’s financial relationships and interactions with two healthcare providers at the VA Long Beach Healthcare System. The Company has continued to cooperate and respond to these requests.

As part of its cooperation, the Company provided documents in response to subpoenas concerning its relationship with three now former VA employees in South Carolina, who were ultimately indicted in May 2018. Among other things, the indictment referenced speaker fees paid by the Company to the former VA employees and other interactions between now former Company employees and the former VA employees. In January 2019, prosecution was deferred for 18 months to allow the three former VA employees to enter and complete a Pretrial Diversion Program, the completion of which would result in the dismissal of the indictment. As far as the Company is aware, two of the former VA employees have completed the program early and the indictment has been dismissed with respect to them. To date, no actions have been taken against the Company with respect to this matter.

#### *Qui Tam Actions*

On January 19, 2017, a former employee of the Company filed a *qui tam* False Claims Act complaint in the United States District Court for the District of South Carolina (*United States of America, ex rel. Jon Vitale v. MiMedx Group, Inc.*) alleging that the Company's donations to the patient assistance program, Patient Access Network Foundation, violated the Anti-Kickback Statute and resulted in submission of false claims to the government. The government declined to intervene and the complaint was unsealed on August 10, 2018. The Company filed a motion to dismiss on October 1, 2018. The Company's motion to dismiss was granted in part and denied in part on May 15, 2019. The case is in discovery.

On January 20, 2017, two former employees of the Company, filed a *qui tam* False Claims Act complaint in the United States District Court for the District of Minnesota (*Kruchoski et. al. v. MiMedx Group, Inc.*). An amended complaint was filed on January 27, 2017. The operative complaint alleges that the Company failed to provide truthful, complete and accurate information about the pricing offered to commercial customers in connection with the Company's Federal Supply Schedule contract. On May 7, 2019, the Department of Justice ("**DOJ**") declined to intervene, and the case was unsealed. In April 2020, without admitting the allegations, the Company agreed to pay \$6.5 million to the DOJ to resolve this matter.

#### *Former Employee Litigation*

On December 13, 2016, the Company filed a complaint in the Circuit Court for Palm Beach County, Florida (*MiMedx Group, Inc. v. Academy Medical, LLC et. al.*) alleging several claims against a former employee, primarily based on his alleged competitive activities while he was employed by the Company (breach of contract, breach of fiduciary duty and breach of duty of loyalty). The former employee countersued for monetary damages and injunctive relief, alleging whistleblower retaliation in violation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), unlawful discharge and defamation. The Court dismissed the Dodd-Frank Act whistleblower counterclaim, and in response, the former employee filed an amended complaint on September 11, 2018, adding allegations of post-termination retaliation in violation of the Dodd-Frank Act. The court dismissed the former employee's retaliation counterclaim on January 24, 2019. After this dismissal, only the former employee's claims of unlawful discharge and defamation remained pending. The parties resolved this matter and the case was dismissed on September 5, 2019.

On December 29, 2016, the Company filed a complaint in the United States District Court for the Northern District of Illinois (*MiMedx Group, Inc. v. Michael Fox*) alleging several claims against a former employee of the Company, primarily based on his alleged competitive activities while he was employed by the Company (breach of contract, breach of fiduciary duty and breach of duty of loyalty). The former employee countersued the Company for monetary damages and injunctive relief, alleging improper wage rate adjustment, interference with the former employee's job after his termination from the Company and retaliation. The parties resolved this matter and the case was dismissed on November 4, 2019.

On July 13, 2018, a former employee filed a complaint against the Company in the United States District Court for the Northern District of Texas (*Jennifer R. Scott v. MiMedx Group, Inc.*), alleging sex discrimination and retaliation. The parties resolved this matter, and the case was dismissed on November 6, 2019.

On November 19, 2018, the Company's former Chief Financial Officer filed a complaint in the Superior Court for Cobb County, Georgia (*Michael J. Senken v. MiMedx Group, Inc.*) in which he claims that the Company has breached its obligations under the Company's charter and bylaws to advance to him, and indemnify him for, his legal fees and costs that he incurred in connection with certain Company internal investigations and litigation. The Company filed its answer denying the plaintiff's claims on April 19, 2019. To date, no deadlines have been established by the court.

On January 21, 2019, a former employee filed a complaint in the Fifth Judicial Circuit, Richland County, South Carolina (*Jon Michael Vitale v. MiMedx Group, Inc. et. al.*) against the Company alleging retaliation, defamation and unjust enrichment and seeking monetary damages. The former employee claims he was retaliated against after raising concerns related to insurance fraud and later defamed by comments concerning the indictments of three South Carolina VA employees. On February 19, 2019, the case was removed to the U.S. District Court for the District of South Carolina. The Company filed a motion to dismiss on April 8, 2019, which was denied by the Court. This case is in discovery.

In December 2019, MiMedx received notice of a complaint filed in July 2018 with the Occupational Safety and Health Administration (“OSHA”) section of the Department of Labor (“DOL”) by Thomas Tierney, a former Regional Sales Director, against MiMedx and the referenced individuals, *Tierney v. MiMedx Group, Inc., Parker Petit, William Taylor, Christopher Cashman, Thornton Kuntz, Jr. and Alexandra Haden*, DOL No. 4-5070-18-243. Mr. Tierney alleged that he was terminated from MiMedx in retaliation for reporting concerns about revenue recognition practices, compliance issues, and the corporate culture, in violation of the anti-retaliation provisions of the Sarbanes-Oxley Act. The parties settled this matter and OSHA dismissed the complaint on May 20, 2020.

#### *Defamation Claims*

On June 4, 2018, Sparrow Fund Management, LP (“**Sparrow**”) filed a complaint against the Company and Mr. Petit, including claims for defamation and civil conspiracy in the United States District Court for the Southern District of New York (*Sparrow Fund Management, L.P. v. MiMedx Group, Inc. et. al.*). The complaint seeks monetary damages and injunctive relief and alleges the defendants commenced a campaign to publicly discredit Sparrow by falsely claiming it was a short seller who engaged in illegal and criminal behavior by spreading false information in an attempt to manipulate the price of our Common Stock. On March 31, 2019, a judge granted defendants’ motions to dismiss in full, but allowed Sparrow the ability to file an amended complaint. The Magistrate has recommended Sparrow’s motion for leave to amend be granted in part and denied in part and the Judge adopted the Magistrate’s recommendation. Sparrow filed its amended complaint against MiMedx (Mr. Petit has been dropped from the lawsuit) on April 3, 2020 and the Company filed its answer. This case is in discovery.

On June 17, 2019, the principals of Viceroy Research (“**Viceroy**”), filed suit in the Circuit Court for the Seventeenth Judicial Circuit in Broward County, Florida (*Fraser John Perring et. al. v. MiMedx Group, Inc. et. al.*) against the Company and Mr. Petit, alleging defamation and malicious prosecution based on the defendants’ alleged campaign to publicly discredit Viceroy and the lawsuit the Company previously filed against the plaintiffs, but which the Company subsequently dismissed without prejudice. On November 1, 2019, the Court granted Mr. Petit’s motion to dismiss on jurisdictional grounds, denied the Company’s motion to dismiss, and granted plaintiffs leave to file an amended complaint to address the deficiencies in its claims against Mr. Petit, which they did on November 21, 2019. The Company filed its answer on December 20, 2019.

#### *Intellectual Property Litigation*

##### *The Bone Bank Action*

On May 16, 2014, the Company filed a patent infringement lawsuit against Transplant Technology, Inc. d/b/a Bone Bank Allografts (“**Bone Bank**”) and Texas Human Biologics, Ltd. (“Biologics”) in the United States District Court for the Western District of Texas (*MiMedx Group, Inc. v. Tissue Transplant Technology, LTD. d/b/a/ Bone Bank Allografts et. al.*). The Company has asserted that Bone Bank and Biologics infringed certain of the Company’s patents through the manufacturing and sale of their placental-derived tissue graft products, and the Company is seeking permanent injunctive relief and unspecified damages. On July 10, 2014, Bone Bank and Biologics filed an answer to the complaint, denying the allegations in the complaint, and filed counterclaims seeking declaratory judgments of non-infringement and invalidity. The matter settled in 2019 prior to trial, and the case was dismissed on April 4, 2019.

##### *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**”) in the United States District Court for the Northern District of Alabama (*MiMedx Group, Inc. v. NuTech Medical, Inc. et. al.*). The Company has alleged that NuTech and DCI infringed and continue to infringe the Company’s patents through the manufacture, use, sale and/or offering of their tissue graft product. The Company has also asserted that NuTech knowingly and willfully made false and misleading representations about its products to customers and prospective customers. The Company is seeking permanent injunctive relief and unspecified damages. The case was stayed pending the restatement of the Company’s financial statements. Since the Company has completed its restatement, the case has resumed and discovery has recommenced.

##### *The Osiris Action*

On February 20, 2019, Osiris Therapeutics, Inc. (“**Osiris**”) refiled its trade secret and breach of contract action against the Company (which had been dismissed in a different forum) in the United States District Court for the Northern District of Georgia (*Osiris Therapeutics, Inc. v. MiMedx Group, Inc.*). Osiris has alleged that the Company acquired Stability, a former distributor of Osiris, in order to illegally obtain trade secrets. On February 24, 2020, the Court issued an order granting in part and denying in part MiMedx’s motion to dismiss. The Court dismissed Osiris’s claims for tortious interference, conspiracy to breach contract, unfair competition, and conspiracy to commit unfair competition. The Court denied MiMedx’s motion to dismiss with respect to the

claim for breach of the contract between Osiris and Stability, finding that there is a question as to whether Osiris can maintain such a claim by piercing the corporate veil between MiMedx and its former subsidiary. If Osiris cannot pierce the corporate veil, the claim against MiMedx fails; if Osiris can pierce the corporate veil, the breach of contract claim must be brought in an arbitration proceeding. MiMedx did not move to dismiss Osiris’s claims for misappropriation of trade secrets and conspiracy to misappropriate trade secrets. MiMedx plans to defend against all remaining claims.

As of September 30, 2019, the Company has accrued approximately \$14.8 million related to the legal proceedings discussed above.

#### **Other Matters**

Under the Florida Business Corporation Act and agreements with its current and former officers and directors, the Company is obligated to indemnify its current and former officers and directors who are made party to a proceeding, including a proceeding brought by or in the right of the corporation, with certain exceptions, and to advance expenses to defend such matters. The Company has already borne substantial costs to satisfy these indemnification and expense advance obligations and expects to continue to do so in the future.

In addition to the matters described above, the Company is a party to a variety of other legal matters that arise in the ordinary course of the Company’s business, none of which is deemed to be individually material at this time. Due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on the Company’s business, results of operations, financial position or liquidity.

#### **14. Revenue Data by Customer Type**

MiMedx has two primary distribution channels: (1) direct to customers (healthcare professionals and/or facilities) (“**Direct Customers**”), and (2) sales through distributors (“**Distributors**”). For purposes of the required disclosure under ASC 606-10-50-5, the Company groups its customers into these two groups. This grouping by customer types does not constitute a basis for resource allocation but is information intended to provide the reader with ability to better understand how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors applicable to each customer type. These groupings also do not meet the criteria under ASC 280-10-50-1 to qualify as separate operating segments. The Company did not have significant foreign operations or a single external customer from which 10% or more of revenues were derived during the three and nine months ended September 30, 2019 and 2018.

Below is a summary of net sales by each customer type (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Direct Customers	\$ 84,264	\$ 83,545	\$ 214,014	\$ 255,351
Distributors	4,599	3,414	8,841	11,174
Total	\$ 88,863	\$ 86,959	\$ 222,855	\$ 266,525

## 15. Subsequent Events

### ***Separation and Transition Services Agreement of Edward J. Borkowski***

On November 18, 2019, the Company entered into a Separation and Transition Services Agreement (“***Separation Agreement***”) with Edward J. Borkowski, under which Mr. Borkowski resigned as Executive Vice President and Interim Chief Financial Officer of the Company, as well as from any and all officer, director or other positions that he held with the Company and its affiliates, effective November 15, 2019. Pursuant to the Separation Agreement, Mr. Borkowski agreed to perform the duties of the Interim Chief Financial Officer with respect to the Company’s 2018 Form 10-K and assist with the transition of his duties as described in the Separation Agreement from November 15, 2019 through the earlier of the first business day following the Company’s filing of its 2018 Form 10-K with the SEC or December 31, 2019 (the “***Transition Period***”). From the end of the Transition Period until March 31, 2020, Mr. Borkowski agreed to provide services as may be requested by the Company with respect to matters related to the 2018 Form 10-K and the Company’s Annual Report on Form 10-K for the year ended December 31, 2019. The Company paid Mr. Borkowski \$1.7 million as of December 31, 2019 and the remaining \$2.3 million under the Separation Agreement was paid in April and May of 2020.

### ***Coronavirus Aid, Relief and Economic Security (CARES) Act***

On March 27, 2020, the “Coronavirus Aid, Relief and Economic Security (CARES) Act” was signed into law. The Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, loans and grants to certain business, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The Company applied for and received a \$10.0 million loan under the Paycheck Protection Program. On May 11, 2020 the Company repaid the PPP loan.

In addition, modifications to the tax rules for carryback of net operating losses are expected to result in an estimated federal tax refund of \$11.3 million and a resulting income tax benefit.

The COVID-19 pandemic and governmental and societal responses thereto have affected the Company's business, results of operations and financial condition. The continuation or a second-wave outbreak of COVID-19 or the outbreak of other health epidemics could harm the Company's operations and increase the Company's costs and expenses in numerous ways. The ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. The Company does not yet know the full extent of delays or impacts on the business, clinical trials, healthcare systems or the global economy as a whole, or how long such effects will endure. The effects of the COVID-19 pandemic or other health epidemics could have an adverse impact on the Company's business, results of operations and financial condition.

### ***BT Term Loan Amendment***

On April 22, 2020, the Company amended its BT Loan Agreement with Blue Torch. The amendment provided for an increase in the maximum Total Leverage Ratio, which was a quarterly test, for the remainder of 2020, and also provided for a reduction in the minimum Liquidity requirement from April 2020 through and including November 2020. Specifically, the maximum Total Leverage Ratio increased from 3.00 to 1.00 to a new Total Leverage Ratio of 5.00 to 1.00 through December 31, 2020. The minimum Liquidity requirement was reduced from \$40 million to \$20 million for April and May 2020 and from \$30 million to \$20 million for June through November 2020. In connection with the amendment, the Company agreed to pay a one-time fee of approximately \$0.7 million, added to the principal balance, and a 1 percentage point increase in the interest rate to LIBOR plus 9%.

On July 2, 2020, the Company repaid the BT Term Loan and terminated the BT Loan Agreement. See “-*Repayment and Termination of BT Loan Agreement*” below.

### ***Sublease***

On April 1, 2020 the Company successfully subleased its industrial warehouse space that expires on May 31, 2023. The Company performed an asset recovery test comparing the sum of estimated undiscounted future cash flows attributable to the sublease to its carrying amount. The total undiscounted cash flows for the remaining lease term exceed the carrying amount of the asset, therefore there is no impairment.

### ***Repayment and Termination of BT Loan Agreement***

On July 2, 2020, the Company terminated the BT Loan Agreement and repaid the \$72.0 million outstanding balance of principal and accrued but unpaid interest under the BT Loan Agreement. As a result of the early repayment of the loans under the BT Loan Agreement, the Company also paid a prepayment premium in the amount of \$1.4 million. The Company paid the outstanding balance, accrued but unpaid interest, and prepayment premium using a portion of the proceeds from the Preferred Stock Transaction and the Hayfin Loan Transaction.

### ***Issuance of \$100 Million of Series B Convertible Preferred Stock***

On July 2, 2020, the Company issued \$100 million shares of its Series B Preferred Stock, par value \$0.001 per share (the “***Series B Preferred Stock***”) to an affiliate of EW Healthcare Partners and certain funds managed by Hayfin Capital Management LLP pursuant to a Securities Purchase Agreement with Falcon Fund 2 Holding Company, L.P., an affiliate of EW Healthcare Partners, and certain funds managed by Hayfin Capital Management LLP, dated as of June 30, 2020, for an aggregate purchase price of \$100 million (the “***Preferred Stock Transaction***”).

### ***\$75 Million Loan Facility with Hayfin***

On June 30, 2020, the Company entered into a Loan Agreement with, among others, Hayfin Services, LLP, an affiliate of Hayfin Capital Management LLP (the “***Hayfin Loan Agreement***”), which was funded on July 2, 2020 (the “***Hayfin Loan Transaction***”) and that provided the Company with a senior secured term loan in an aggregate amount of \$50 million (the “***Hayfin Term Loan***”) and an additional \$25 million delayed draw term loan (the “***DD TL***”) in the form of a committed but undrawn facility. The Term Loan and the DD TL mature on July 2, 2025 (the “***Maturity Date***”). The Term Loan and the DD TL have no fixed amortization (i.e. interest only through the Maturity Date).

Borrowings under the Hayfin Loan Agreement bear interest at a rate equal to LIBOR (subject to a floor of 1.5%) plus a margin of 6.75%. The margin will be eligible to step down to 6.5% or 6.0% based on future Total Net Leverage levels, as defined in the Hayfin Loan Agreement. The Company paid an upfront commitment fee of 2% of the aggregate of the Hayfin Term Loan and the DD TL. The DD TL is subject to an additional commitment fee of 1% of the amount undrawn.

The Hayfin Loan Agreement contains certain affirmative covenants that impose certain reporting and/or performance obligations on the Company and its subsidiaries, including (i) Maximum Total Net Leverage of 5.0x through December 31, 2020, stepping down to 4.5x through June 30, 2021, and to 4.0x thereafter until the Maturity Date; (ii) Cap on Cash Netting for the purposes of calculation Total Net Leverage set at \$10 million; (iii) DD TL Incurrence Covenant of 3.5x Total Net leverage, tested prior to any drawings under the DD TL; and (iv) Minimum Liquidity of \$10 million, an at-all-times covenant tested monthly.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

MiMedx is an industry leader in advanced wound care and an emerging therapeutic biologics company, developing and distributing placental tissue allografts with patent-protected processes for multiple sectors of healthcare. We derive our products from human placental tissues processed using our proprietary processing methodologies, including the PURION® process. We employ aseptic processing techniques in addition to terminal sterilization to produce our allografts. MiMedx provides products in the wound care, burn, surgical, orthopedic, spine, sports medicine, ophthalmic, and dental sectors of healthcare. Our mission is to offer products and tissues to help the body heal itself. All of our products are regulated by the FDA.

MiMedx is the leading supplier of human placental allografts, which are human tissues that are transplanted from one person (a donor) to another person (a recipient). MiMedx has supplied over 1.9 million allografts, through both direct sales and consignment shipments. Our biomaterial platform technologies include AmnioFix®, EpiFix®, EpiCord®, AmnioCord® and AmnioFill®. AmnioFix and EpiFix are our tissue allografts derived from the amnion and chorion layers of the human placental membrane.

EpiCord and AmnioCord are tissue allografts derived from umbilical cord tissue. AmnioFill is a placental connective tissue matrix derived from the placental disc and other placental tissue.

Our EpiFix and EpiCord product lines are promoted for external use, such as in advanced wound care applications, while our AmnioFix, AmnioCord and AmnioFill products are positioned for use in surgical applications, including lower extremity repair, plastic surgery, vascular surgery and multiple orthopedic repairs and reconstructions.

MiMedx has two primary distribution channels: (1) direct to customers (healthcare professionals and/or facilities); and (2) sales through distributors.

### **Trends in Our Business**

#### *Certain areas of our business suffered as a result of the issues identified in the Audit Committee Investigation*

The results of the Audit Committee Investigation have caused us to incur significant legal fees, fines, and penalties. Additionally, the Company has incurred significant costs in connection with the associated Restatement. Negative publicity in the marketplace has created challenges for the Company in selling product to customers and retaining talented employees. All of these matters have caused the Company to incur significant costs and have negatively impacted our financial performance.

#### *Demographic shifts are creating opportunities in the wound care space*

The advanced wound care category is expected to continue growing due to certain demographic trends, including an aging population, increasing incidence of obesity and diabetes, and the associated higher susceptibility to non-healing chronic wounds. Furthermore, the increasing number of patients requiring advanced treatment represents a significant cost burden on the healthcare system. We expect that these shifts will benefit our business.

#### *As we look for ways to achieve long-term competitive advantages, we plan to continue to invest in research & development*

We continue to evaluate these opportunities in alignment with our focus on advanced wound care. We remain focused on advancing our BLA programs and are therefore aligning customer input, industry expertise, and additional resourcing toward seeking FDA approval for micronized dehydrated human amnion/chorion membrane (“***dHACM***”) for the potential indication to treat musculoskeletal degeneration across multiple indications. In addition, we expect to incur additional costs to achieve compliance with evolving regulatory standards.

**Results of Operations Comparison for the Three Months Ended September 30, 2019 to the Three Months Ended September 30, 2018**

	Three Months Ended September 30,				Nine Months Ended September 30,			
	(in thousands)				(in thousands)			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Net Sales	\$ 88,863	\$ 86,959	\$ 1,904	2.2 %	\$ 222,855	\$ 266,525	\$ (43,670)	(16.4)%
Gross profit	75,658	79,604	(3,946)	(5.0)%	192,483	240,541	(48,058)	(20.0)%
Selling, general and administrative	51,258	58,740	(7,482)	(12.7)%	152,761	192,233	(39,472)	(20.5)%
Investigation, restatement and related	7,242	16,269	(9,027)	(55.5)%	46,374	31,307	15,067	48.1 %
Research and development	2,691	3,962	(1,271)	(32.1)%	8,421	11,225	(2,804)	(25.0)%
Amortization of intangible assets	269	260	9	3.5 %	769	758	11	1.5 %
Impairment of intangible assets	—	—	—	— %	446	—	446	100.0 %
Interest (expense) income, net	(2,255)	99	(2,354)	(2,377.8)%	(2,313)	312	(2,625)	(841.3)%
Other income, net	127	—	127	100.0 %	272	—	272	100.0 %
Income tax provision benefit (expense)	309	(650)	959	147.5 %	225	915	(690)	(75.4)%
Net income (loss)	\$ 12,379	\$ (178)	\$ 12,557	7,054.5 %	\$ (18,104)	\$ 6,245	\$ (24,349)	(389.9)%

**Revenue**

We recorded revenue for the three months ended September 30, 2019 of \$88.9 million, approximately a \$1.9 million, or 2.2%, increase over the three months ended September 30, 2018 revenue of \$87.0 million. As discussed in the “Critical Accounting Policies” section in the unaudited condensed consolidated financial statements, we recognized revenue related to customers for whom collection was reasonably certain. This resulted in the recognition of a Transition adjustment of \$21.4 million. Excluding this benefit related to the method in which the Company recognizes revenue, the decrease primarily resulted from unfavorable insurance coverage developments, which resulted in a decrease in the number of units sold. Additionally, half of the reduction of the Company’s workforce announced in December 2018 and completed through 2019 were sales personnel which resulted in less visits to customers. Further, revenues were adversely affected from sales made in prior periods and collected during the current period along with negative publicity resulting from the Audit Committee Investigation.

**Gross Profit Margin**

Gross profit margin for the three months ended September 30, 2019 were 85.1% as compared to 91.5% for the three months ended September 30, 2018. Gross margins decreased due to higher manufacturing overhead costs associated with lower production volumes in 2019.

**Selling, General and Administrative Expenses**

Selling, general and administrative (“SG&A”) expenses for the three months ended September 30, 2019 decreased approximately \$7.5 million, or 12.7%, to \$51.3 million compared to \$58.7 million for the three months ended September 30, 2018. The decrease was primarily related the reduction of our workforce announced in December 2018 by approximately 240 full-time employees, or 24% of our total workforce, of which about half were sales force personnel as part of previously announced plans to implement a broad-based organizational realignment, cost reduction and efficiency program to better ensure our cost structure is appropriate given our revenue expectations. SG&A 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.

**Investigation, Restatement and Related Expenses**

Investigation, restatement and related expense for the three months ended September 30, 2019 decreased approximately \$9.0 million, or 55.5%, to \$7.2 million compared to \$16.3 million for the three months ended September 30, 2018. The decrease primarily resulted from a decrease in litigation, investigation, and shareholder related expenses slightly offset by an increase in consulting expenses.

**Research and Development Expenses**



Our research and development expenses decreased approximately \$1.3 million, or 32.1%, to \$2.7 million for the three months ended September 30, 2019, compared to approximately \$4.0 million for the three months ended September 30, 2018. The decrease is primarily related to year-over-year decreases in clinical trial activities.

#### *Amortization of Intangible Assets*

Amortization expense related to intangible assets remained relatively flat for the three months ended September 30, 2019, compared to the three months ended September 30, 2018.

#### *Interest (expense) income, net*

Interest (expense) income, net increased by \$2.4 million to \$(2.3) million during the three months ended September 30, 2019 from \$0.1 million during the three months ended September 30, 2018. This increase was due to the interest on our borrowings under the BT Loan Agreement entered into on June 10, 2019.

#### *Other income, net*

Other income, net of \$0.1 million during the three months ended September 30, 2019 reflects a settlement payment received for patent infringement case.

#### *Income Tax Provision Benefit (Expense)*

The effective tax rate the three months ended September 30, 2019 decreased approximately 140.3% when compared to the same period of 2018, primarily due to the full valuation allowance recorded during this period in 2019 where there was no valuation allowance recorded in the same period of 2018.

### **Results of Operations Comparison for the Nine Months Ended September 30, 2019 to the Nine Months Ended September 30, 2018**

#### *Revenue*

We recorded revenue for the nine months ended September 30, 2019 of \$222.9 million, approximately a \$43.7 million, or 16.4%, decrease over the nine months ended September 30, 2018 revenue of \$266.5 million. As discussed in the “Critical Accounting Policies” section above, the Company assessed its sales arrangements with customers during 2019 beginning with the definition of a contract under ASC 606 at the time of shipments of goods to the customer or upon the delivery of such goods if so stipulated by the terms of sale. Based on this assessment, the Company recognized revenue for its open invoices in addition to the cash collected through the end of the third quarter of 2019 of approximately \$21.4 million. Excluding this benefit related to the method in which the Company recognizes revenue, the decrease primarily resulted unfavorable insurance coverage developments, which resulted in a decrease in the number of units sold. Additionally, half of the reduction of the Company’s workforce announced in December 2018 and completed through 2019 were sales personnel, which resulted in less visits to customers. Further, revenues were adversely affected from sales made in prior periods and collected during the current period along with negative publicity resulting from the Audit Committee Investigation.

#### *Gross Profit Margin*

Gross profit margin for the nine months ended September 30, 2019 was 86.4% as compared to 90.3% for the nine months ended September 30, 2018. Gross margins decreased due to higher manufacturing overhead costs associated with lower production volumes in 2019.

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

SG&A expenses for the nine months ended September 30, 2019 decreased approximately \$39.5 million, or 20.5%, to \$152.8 million compared to \$192.2 million for the nine months ended September 30, 2018. The decrease was primarily due to the reduction of our workforce announced in December 2018 by approximately 240 full-time employees, or 24% of our total workforce, about half were sales force personnel. This reduction was part of a broad-based organizational realignment, cost reduction, and efficiency program to better ensure that our cost structure was appropriate given our revenue expectations. SG&A 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.

#### *Investigation, Restatement, and Related Expenses*

Investigation, restatement and related expense for the nine months ended September 30, 2019 increased approximately \$15.1 million, or 48.1%, to \$46.4 million compared to \$31.3 million for the nine months ended September 30, 2018. The increase

primarily resulted from an increase in litigation, investigation, and consulting fees slightly offset by a decrease in investigation fees.

#### *Research and Development Expenses*

Our research and development expenses decreased approximately \$2.8 million, or 25.0%, to \$8.4 million for the nine months ended September 30, 2019, compared to approximately \$11.2 million for the nine months ended September 30, 2018. The decrease is primarily related to year-over-year decreases in clinical trial activities.

#### *Amortization of Intangible Assets*

Amortization expense related to intangible assets remained relatively flat for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

#### *Impairment of Intangible Assets*

The impairment of intangible assets of \$0.4 million was due to the impairment of certain customer relationship intangible assets for the nine months ended September 30, 2019 related to the divestiture of Stability in 2017.

#### *Interest (expense) income, net*

Interest (expense) income, net increased by \$2.6 million to \$(2.3) million during the nine months ended September 30, 2019 from \$0.3 million during the nine months ended September 30, 2018. This increase was due to the interest on our borrowings under the BT Loan Agreement entered into on June 10, 2019.

#### *Other income, net*

Other income, net of \$0.3 million during the nine months ended September 30, 2019 reflects a settlement payment received for patent infringement case.

#### *Income Tax Provision Benefit (Expense)*

The effective tax rate for the nine months ended September 30, 2019 increased from (17.2)% in the same period in 2018 to 1.2%. The effective tax rate for this period in 2018 was driven by a discrete tax benefit due to stock based compensation with no valuation allowance. The effective tax rate for this period 2019 is the result of a full valuation allowance in addition to discrete tax events.

### **Liquidity and Capital Resources**

Our business requires capital for its operating activities, including costs associated with the sale of product through direct and indirect sales channels, the conduct of research and development activities, compliance costs, and legal and consulting fees in connection with ongoing litigation and other matters. We generally fund our operating capital requirements through our operating activities and cash reserves. We expect to use capital in the near and medium term to implement our priorities, including for capital investments, steps to complete achievement of cGMP compliance, advancement of our IND applications, pursuit of BLAs for certain of our micronized products, and settlements of certain legal matters.

As of September 30, 2019, we had approximately \$94.1 million of cash and cash equivalents. We reported total current assets of approximately \$134.0 million and total current liabilities of approximately \$73.4 million at September 30, 2019, which represents a current ratio of 1.8 as of September 30, 2019.

Our Common Stock was suspended from trading on The Nasdaq Capital Market effective November 8, 2018 and subsequently was delisted from trading on The Nasdaq Capital Market in March 2019. As a result, we are significantly limited in our ability to access the capital markets to raise debt or equity capital. For more information, see “*Risk Factors - Our Common Stock might not be relisted, or once relisted, it might not remain listed*” and “*Our Common Stock has been delisted from The Nasdaq Capital Market, which may negatively impact the trading price of our Common Stock and the levels of liquidity available to our shareholders*” in our 2019 Form 10-K.

On June 10, 2019, we entered into a Term Loan Agreement (the “**BT Loan Agreement**”) with Blue Torch Finance LLC, as administrative agent and collateral agent, to borrow funds with a face value of \$75.0 million (the “**BT Term Loan**”), of which the full amount has been borrowed and funded. The proceeds from the BT Term Loan were used (i) for working capital and general corporate purposes and (ii) to pay transaction fees, costs and expenses incurred in connection with the BT Term Loan and the related transactions. The BT Term Loan would have matured on June 20, 2022 and was repayable in quarterly installments of \$0.9 million; the balance is due on June 20, 2022. Blue Torch had a first-priority security interest in substantially all the Company’s

assets. The BT Term Loan was issued net of the original issue discount of \$2.3 million. We also incurred \$6.7 million of deferred financing costs.

Interest applicable to any borrowings under the BT Term Loan accrued at a rate equal to LIBOR plus a margin of 8.00% per annum or (if LIBOR is not available) a prime rate plus a margin of 7.00% per annum. The BT Term Loan had an interest rate equal to 10.46% at the time the BT Loan Agreement was executed.

The BT Loan Agreement contained financial covenants requiring the Company, on a consolidated basis, to maintain the following:

- Maximum Total Leverage Ratio, defined as funded debt divided by consolidated adjusted EBITDA, of not more than 3.0 to 1.0 as of the last day of the previous four consecutive fiscal quarters.
- Minimum Liquidity, defined as unrestricted cash and cash equivalents, of less than \$40.0 million as of the last business day of each fiscal month following the BT Term Loan closing date through and including the fiscal month ending May 31, 2020. For fiscal months beginning June 30, 2020, the Company is not permitted to have liquidity of less than \$30.0 million. Beginning with the fiscal month ending December 31, 2020, if the total leverage ratio is less than 2.50 to 1.0 as of the last business day of any fiscal month, the Company's liquidity could not be less than \$20.0 million.

On April 22, 2020, we amended the BT Loan Agreement to provide for an increase in the maximum Total Leverage Ratio, which is a quarterly test, from a Total Leverage Ratio of 3.00 to 1.00 to a new Total Leverage Ratio of 5.00 to 1.00 for the quarterly periods ending on June 30, 2020, September 30, 2020, and December 31, 2020, and also to provide for a reduction in the minimum Liquidity covenant, which is a monthly requirement, from \$40 million to \$20 million for April and May 2020 and from \$30 million to \$20 million for June through November 2020. In connection with the amendment, we agreed to pay a one-time fee of approximately \$0.7 million, added to the principal balance, and a 1 percentage point increase in the interest rate to LIBOR plus 9%.

The BT Loan Agreement also specified that any prepayment of the loan, voluntary or mandatory, as defined in the BT Loan Agreement, would subject MiMedx to a prepayment penalty as of the date of the prepayment with respect to the BT Term Loan of:

- During the period from June 10, 2019 through June 10, 2020, an amount equal to 3% of the principal amount of the BT Term Loan prepaid on such date; and
- During the period from June 11, 2020 through June 10, 2021, an amount equal to 2% of the principal amount of the BT Term Loan prepaid on such date.

Principal prepayments after June 10, 2021 were not subject to a prepayment penalty.

The BT Loan Agreement also included events of default customary for facilities of this type, and upon the occurrence of such events of default, subject to customary cure rights, all outstanding loans under the BT Loan Agreement could be accelerated and/or the lenders' commitments terminated.

On July 2, 2020, we issued \$100 million shares of our Series B Preferred Stock, par value \$0.001 per share (the "**Series B Preferred Stock**") to an affiliate of EW Healthcare Partners and certain funds managed by Hayfin Capital Management LLP pursuant to a Securities Purchase Agreement with Falcon Fund 2 Holding Company, L.P., an affiliate of EW Healthcare Partners, and certain funds managed by Hayfin Capital Management LLP, dated as of June 30, 2020, for an aggregate purchase price of \$100 million (the "**Preferred Stock Transaction**").

On June 30, 2020, we entered into a Loan Agreement with, among others, Hayfin Services, LLP, an affiliate of Hayfin Capital Management LLP (the "**Hayfin Loan Agreement**"), which was funded on July 2, 2020 (the "**Hayfin Loan Transaction**") and that provided us with a senior secured term loan in an aggregate amount of \$50 million (the "**Hayfin Term Loan**") and an additional \$25 million delayed draw term loan (the "**DD TL**") in the form of a committed but undrawn facility. The Term Loan and the DD TL mature on July 2, 2025 (the "**Maturity Date**"). The Term Loan and the DD TL have no fixed amortization (i.e. interest only through the Maturity Date).

On July 2, 2020, we repaid the remaining principal of \$72.0 million, accrued interest and fees of \$0.1 million under the BT Loan Agreement. As a result of the early termination of the BT Loan Agreement, we incurred a prepayment premium of \$1.4 million. We paid the remaining principal, the related prepayment premium, and the accrued interest with a portion of the proceeds from the Preferred Stock Transaction and the Hayfin Loan Transaction, as described above.

We believe that our anticipated cash from operating activities, existing cash and cash equivalents, as well as the proceeds under the Preferred Stock Transaction and the Hayfin Loan Transaction will enable us to meet our operational liquidity needs and fund our planned investing activities for the year following the date of this Form 10-Q.

### **Share Repurchases**

During the nine months ended September 30, 2019, we repurchased 33,087 shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock. Other than these, we did not repurchase any shares of its common stock for the three and nine months ended September 30, 2019. The timing and amount of future repurchases, if any, will depend upon our stock price, economic and market conditions, regulatory requirements, and other corporate considerations. We may initiate, suspend or discontinue purchases under the stock repurchase program at any time.

### **Contingencies**

See Note 13 to our condensed consolidated financial statements in Part I, Item 1 herein.

### **Contractual Obligations**

For the nine months ended September 30, 2019, there were no significant changes to our operating lease obligations from those disclosed in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2018 Form 10-K.

### **Discussion of Cash Flows**

Net cash from operating activities during the nine months ended September 30, 2019 decreased approximately \$50.6 million to approximately \$16.3 million of cash used, compared to \$34.3 million of cash provided by operating activities for the nine months ended September 30, 2018. The decrease was primarily attributable to a decrease in net income, the effect of change in revenue recognition of \$17.4 million and a decrease in stock-based compensation when compared to the prior year.

Net cash from investing activities during the nine months ended September 30, 2019 increased approximately \$9.3 million to approximately \$1.3 million of cash provided, compared to approximately \$8.0 million of cash used for the nine months ended September 30, 2018. The increase was primarily related to fewer equipment purchases for the nine months ended September 30, 2019 partially offset by the collection of notes receivable.

Net cash from financing activities during the nine months ended September 30, 2019 increased approximately \$72.6 million to approximately \$64.0 million of cash provided, compared to \$8.6 million of cash used during the nine months ended September 30, 2018. Cash provided by financing activities during the nine months ended September 30, 2019 included approximately \$72.8 million of proceeds from the Term Loan partially offset by \$6.6 million of financing costs and discount.

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

In addition to our GAAP results, we provide certain Non-GAAP metrics including Earnings Before Interest, Taxes, Depreciation and Amortization ("**EBITDA**") and Adjusted EBITDA. 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. Company management uses these Non-GAAP measurements as aids in monitoring our on-going financial performance from quarter-to-quarter and year-to-year on a regular basis and for benchmarking against comparable companies.

EBITDA is intended to provide a measure of the Company's operating performance as it eliminates the effects of financing and capital expenditures. EBITDA consists of GAAP net income (loss) excluding: (i) depreciation, (ii) amortization of intangibles, (iii) interest expense (income), and (iv) income tax provision.

Adjusted EBITDA is intended to provide an enduring, normalized view of EBITDA and our broader business operations that we expect to endure on an ongoing basis by removing items which may be irregular, one-time, or non-recurring from EBITDA; most prominently those expenses related to the Audit Committee Investigation and Restatement. This enables us to identify underlying trends in our business that could otherwise be masked by such items.

Adjusted EBITDA consists of GAAP net income (loss) excluding: (i) depreciation, (ii) amortization of intangibles, (iii) interest expense (income), (iv) income tax provision, (v) costs incurred in connection with Audit Committee Investigation and Restatement, (vi) effect of change in revenue recognition, (vii) impairment of intangibles and (viii) share-based compensation.

A reconciliation of GAAP Net Income (Loss) to EBITDA and Adjusted EBITDA appears in the table below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	\$ 12,379	\$ (178)	\$ (18,104)	\$ 6,246
<b>Non-GAAP Adjustments:</b>				
Depreciation expense	1,641	1,414	4,981	3,934
Amortization of intangible assets	269	260	769	758
Interest expense (income), net	2,255	(99)	2,313	(312)
Income tax provision (benefit) expense	(309)	650	(225)	(915)
EBITDA	16,235	2,047	(10,266)	9,711
<b>Additional Non-GAAP Adjustments</b>				
Costs incurred in connection with Audit Committee Investigation and Restatement	7,242	16,269	46,374	31,307
Effect of change in revenue recognition	(18,577)	—	(18,577)	—
Impairment of intangible assets	—	—	1,258	—
Share-based compensation	2,686	3,958	9,199	13,311
Adjusted EBITDA	\$ 7,586	\$ 22,274	\$ 27,988	\$ 54,329

### Critical Accounting Policies

In preparing financial statements, we follow GAAP, which require us to make certain estimates and apply judgments that affect our financial position and results of operations. Management continually reviews our accounting policies and financial information disclosures. A summary of significant accounting policies that require the use of estimates and judgments in preparing the financial statements was provided in the 2018 Form10-K for the year ended December 31, 2018. During the quarter covered by this report, there were no material changes to the accounting policies and assumptions previously disclosed, except as disclosed in Note 2 to the consolidated financial statements contained herein.

### Recent Accounting Pronouncements

For the effect of recent accounting pronouncements, see Note 2 to the Condensed Consolidated Financial Statements contained herein.

### Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as of September 30, 2019.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Based on our lack of market risk sensitive instruments outstanding at September 30, 2019, 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 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Management maintains a set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our CEO and CFO, to allow for timely decisions regarding required disclosure.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed under the supervision and with the participation of our management, including our CEO and CFO. As a result of this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of September 30, 2019 because of certain material weaknesses in internal control over financial reporting, as described in Item 9A, "Controls and Procedures" of our 2018 10-K.

### **Changes in Internal Control over Financial Reporting**

Under Exchange Act Rules 13a-15(d) and 15d-15(d), management is required to evaluate, with the participation of our principal executive officer and principal financial officer, any changes in internal control over financial reporting that occurred during each fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As discussed "Management's Report on Internal Control Over Financial Reporting" in Item 9A, "Controls and Procedures" of our 2018 Form 10-K, we identified unremediated material weaknesses in each of the five components of internal control established in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework" ) as of December 31, 2018. Other than as disclosed in the "Remediation Plan and Status" under Item 9A. Controls and Procedures in the 2018 Form 10-K, there were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitation on the Effectiveness of Internal Controls**

The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting can only provide reasonable, not absolute, assurance that its objectives will be met. In addition, 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. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but we cannot assure that such improvements will be sufficient to provide us with effective internal control over financial reporting in 2019 or future periods.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

The Company and its subsidiaries are parties to numerous claims and lawsuits arising in the normal course of its business activities, some of which involve claims for substantial amounts. The ultimate outcome of these suits cannot be ascertained at this time. For additional information, see Note 13, “Contractual Commitments and Contingencies,” to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q, which is incorporated herein by reference.

### Item 1A. Risk Factors

There have been no material changes to the risk factors discussed in Part I, Item 1A, “Risk Factors” of the Company’s 2019 Form 10-K. These factors could materially and adversely affect the Company’s business, financial condition, and results of operations, and should be carefully considered. However, these are not the only risks facing the Company. Additional risks and uncertainties not currently known, or that the Company currently deems to be immaterial, also may adversely affect the Company’s business, financial condition, and results of operations.

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

(a) None.

(b) None.

(c) **Stock Repurchases:**

The following table sets forth information regarding the purchases of the Company’s equity securities made by or on behalf of the Company or any affiliated purchaser (as defined in Exchange Act Rule 10b-18) during the three month period ended September 30, 2019:

	Total number of shares purchased <sup>(a)</sup>	Average price paid per share	Total number of shares purchased under publicly announced plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
Total amount remaining July 1, 2019				\$ —
July 1, 2019 - July 31, 2019	30,892	\$ 5.24	—	\$ —
August 1 - August 31, 2019	2,195	\$ 5.32	—	\$ —
September 1 - September 30, 2019	—	\$ —	—	\$ —
Total for the quarter	<u>33,087</u>	<u>\$ 5.24</u>	<u>—</u>	

<sup>(a)</sup> Shares repurchased during the quarter include only shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.



**Item 6. Exhibits**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
3.1	Articles of Incorporation, together with Articles of Amendment effective each of May 14, 2010; August 8, 2012, November 8, 2012; and May 15, 2015 ( <a href="#">incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-K filed on March 1, 2017</a> ).
3.2	Articles of Amendment to the Articles of Incorporation effective November 6, 2018 ( <a href="#">incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-A filed on November 7, 2018</a> ).
3.3	Bylaws of MiMedx Group, Inc., as amended and restated as of October 3, 2018 (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on October 4, 2018).
10.1	<a href="#">Consulting Agreement</a> with Alexandra O. Haden dated August 27, 2019, incorporated by reference to Exhibit 10.26 to Annual Report on Form 10-K filed March 17, 2020.
31.1 #	<a href="#">Certification of Chief Executive Officer</a> pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 #	<a href="#">Certification of Chief Financial Officer</a> pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 #	<a href="#">Certification of Chief Executive Officer</a> pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 #	<a href="#">Certification of Chief Financial Officer</a> 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

---

# Filed herewith

**SIGNATURES**

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

July 6, 2020

MIMEDX GROUP, INC.

By: /s/ Peter M. Carlson

Peter M. Carlson

Chief Financial Officer and Principal Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULES 13a-14(A) AND 15d-14(A)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Timothy R. Wright, certify that:

1. I have reviewed this Form 10-Q for the quarter ended September 30, 2019, of MiMedx Group, Inc.;

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

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

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

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

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

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

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

5. The registrant's other certifying 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 functions):

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

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

Date: July 6, 2020

/s/ Timothy R. Wright

Timothy R. Wright

Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULES 13a-14(A) AND 15d-14(A)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Peter M. Carlson, certify that:

1. I have reviewed this Form 10-Q for the quarter ended September 30, 2019, of MiMedx Group, Inc.;

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

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

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

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

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

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

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

5. The registrant's other certifying 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 functions):

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

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

Date: July 6, 2020

/s/ Peter M. Carlson

---

Peter M. Carlson

Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned Timothy R. Wright, 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 Quarterly Report on Form 10-Q for the period ending September 30, 2019 (the “Report”). Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned hereby certifies, to 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: July 6, 2020

/s/ Timothy R. Wright

---

Timothy R. Wright

Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of MiMedx Group, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter M. Carlson, Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify, that to the best of my knowledge:

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

Date: July 6, 2020

/s/ Peter M. Carlson

---

Peter M. Carlson  
Chief Financial Officer