MIMEDX GROUP, INC.
Form 10-Q
July 31, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2017
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	26-2792552
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)
1775 West Oak Commons Ct NE Marietta, GA	30062
(Address of principal executive offices)	(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 x 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 x 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):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller 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 x

As of July 14, 2017, there were 112,470,030 shares of the registrant’s common stock outstanding.

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Forward-Looking Statements

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

Our actual results may differ materially from those expressed or implied in these forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in Part II, Item 1A, “Risk Factors,” below and in our most recent Annual Report on Form 10-K, as well as other reports we file with the SEC. Except as expressly required by the federal securities laws, we undertake no obligation to update any such factors, or to publicly announce the results of, or changes to any of the forward-looking statements contained herein to reflect future events, developments, changed circumstances, or for any other reason.

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

Part I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

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

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,533	$ 34,391
Accounts receivable, net	60,738	67,151
Inventory, net	15,033	17,814
Prepaid expenses	8,218	5,894
Other current assets	1,024	1,288
Total current assets	132,546	126,538
Property and equipment, net of accumulated depreciation	14,419	13,786
Goodwill	20,203	20,203
Intangible assets, net of accumulated amortization	22,289	23,268
Deferred tax asset, net	10,144	9,114
Deferred financing costs and other assets	264	354
Total assets	$ 199,865	$ 193,263
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,504	$ 11,436
Accrued compensation	14,719	12,365
Accrued expenses	7,986	10,941
Current portion of earn out liability	17,574	8,740
Income taxes	(822)	5,768
Other current liabilities	550	1,482
Total current liabilities	51,511	50,732
Earn out liability	—	8,710
Other liabilities	1,084	821
Total liabilities	52,595	60,263
Commitments and contingencies (Note 12)		
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; 112,534,526 issued and 112,462,283 outstanding at June 30, 2017 and 110,212,547 issued and 109,862,787 outstanding at December 31, 2016	112	110
Additional paid-in capital	161,883	161,261
Treasury stock at cost: 72,243 shares at June 30, 2017 and 349,760 shares at December 31, 2016	(966)	(2,216)
Accumulated deficit	(13,759)	(26,155)
Total stockholders' equity	147,270	133,000
Total liabilities and stockholders' equity	$ 199,865	$ 193,263

See notes to 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	$76,412	$ 57,342	$149,019	$ 110,710
Cost of sales	8,631	7,394	17,374	15,341
Gross margin	67,781	49,948	131,645	95,369
Operating expenses:				
Research and development expenses	4,747	3,168	8,949	5,664
Selling, general and administrative expenses	55,314	42,772	108,265	83,420
Amortization of intangible assets	507	447	1,033	1,257
Operating income	7,213	3,561	13,398	5,028
Other expense, net				
Interest expense, net	(149)	(111)	(294)	(167)
Income before income tax provision	7,064	3,450	13,104	4,861
Income tax (provision) benefit	1,005	(1,475)	(708)	(1,689)
Net income	$8,069	$ 1,975	$12,396	$ 3,172
Net income per common share - basic	$0.08	$ 0.02	$0.12	$ 0.03
Net income per common share - diluted	$0.07	$ 0.02	$0.11	$ 0.03
Weighted average shares outstanding - basic	106,805,162	106,191,932	106,254,433	105,873,727
Weighted average shares outstanding - diluted	117,285,865	112,148,415	115,856,317	112,095,051

See notes to 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	Treasury Stock		Accumulated	
	Shares	Amount	Capital	Shares	Amount	Deficit	Total
Balance December 31, 2016	110,212,547	$ 110	$161,261	349,760	$(2,216)	$ (26,155)	$133,000
Share-based compensation expense	—	—	9,926			—	9,926
Exercise of stock options	1,097,933	1	1,723	(859,639)	7,468	—	9,192
Issuance of restricted stock	1,224,046	1	(12,540)	(1,592,093)	12,539	—	—
Restricted stock shares canceled/forfeited	—	—	1,472	192,198	(1,472)	—	—
Shares issued for services performed		—	41	(17,539)	125	—	166
Share repurchase	—	—		1,685,993	(14,744)	—	(14,744)
Shares repurchased for tax withholding	—	—		313,563	(2,666)		(2,666)
Net income	—	—	—	—	—	12,396	12,396
Balance June 30, 2017	112,534,526	$ 112	$161,883	72,243	$(966)	$ (13,759)	$147,270

See notes to condensed consolidated financial statements

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$12,396	$3,172
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	2,061	1,555
Amortization of intangible assets	1,033	1,257
Amortization of inventory fair value step-up	153	1,224
Amortization of deferred financing costs	90	91
Share-based compensation	9,926	9,124
Change in deferred income taxes	(1,030)	(356)
Increase (decrease) in cash, net of effects of acquisition, resulting from changes in:		
Accounts receivable	6,413	894
Inventory	2,628	(2,245)
Prepaid expenses	(2,324)	(1,781)
Other current assets	264	92
Accounts payable	234	(5,597)
Accrued compensation	2,354	(4,789)
Accrued expenses	(2,833)	2,344
Income taxes	(6,590)	1,388
Other liabilities	(652)	(70)
Net cash flows from operating activities	24,123	6,303
Cash flows from investing activities:		
Purchases of equipment	(2,694)	(3,755)
Purchase of Stability Inc., net of cash acquired	—	(7,631)
Fixed maturity securities redemption	—	3,000
Patent application costs	(54)	(327)
Net cash flows from investing activities	(2,748)	(8,713)
Cash flows from financing activities:		
Proceeds from exercise of stock options	9,192	2,016
Share repurchase under repurchase plan	(14,744)	(3,530)
Share repurchase for tax withholdings on vesting of restricted stock	(2,666)	(684)
Deferred financing costs	—	(61)
Payments under capital lease obligations	(15)	(14)
Net cash flows from financing activities	(8,233)	(2,273)
Net change in cash	13,142	(4,683)
Cash and cash equivalents, beginning of period	34,391	28,486
Cash and cash equivalents, end of period	$47,533	$23,803

See notes to condensed consolidated financial statements

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MIMEDX GROUP, INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") 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 six months ended June 30, 2017 and 2016, are not necessarily indicative of the results that may be expected for the fiscal year. The balance sheet at December 31, 2016, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

You should read these condensed consolidated financial statements together with the historical consolidated financial statements of the Company for the year ended December 31, 2016, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 1, 2017.

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

2. Significant Accounting Policies

Please see Note 2 to the Company's Consolidated Financial Statements included in the Company's Form 10-K for the fiscal year ended December 31, 2016, for a description of all significant accounting policies.

Use of Estimates

The preparation of financial statements in 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

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

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

Inventories

Inventories are valued at the lower of cost or market, using the first-in, first-out (FIFO) method. Inventory is tracked through Raw Material, WIP, and Finished Good stages as the product progresses through various production steps and stocking locations. Labor and overhead costs are absorbed through the various production processes up to when the work order closes. Historical yields and normal capacities are utilized in the calculation of production overhead

rates. Reserves for inventory obsolescence are utilized to account for slow-moving inventory as well as inventory no longer needed due to diminished market demand.

Revenue Recognition

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

Some of the Company’s sales to Government accounts, including the Department of Veterans Affairs, were historically made through a distributor relationship with AvKARE Inc., which is a veteran-owned General Services Administration Federal Supply Schedule (FSS) contractor. The Company's agreement with AvKARE expired on June 30, 2017. Upon termination of the agreement, the Company has an obligation to repurchase AvKARE’s remaining inventory, within ninety (90) days in accordance with the terms of the agreement. As of June 30, 2017, the Company has estimated this liability and has included it in its allowance for product returns.

A portion of the Company’s revenue is generated from consignment inventory maintained at hospitals or physicians' offices. Significant terms of our consignment agreements state that title to the inventory remains with the Company until the product, which has been segregated by the consignee, is withdrawn and therefore purchased by the consignee. The Consignee accepts all risk of loss and full responsibility for any product in the consignment inventory that may be opened, lost, stolen or damaged. The Company recognizes revenue when we are notified that product has been used or implanted.

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

We continually evaluate new and current customers, including our stocking distributors, for collectability based on various factors including past history with the customer, evaluation of their creditworthiness, and current economic conditions. We only record revenue when collectability is reasonably assured.

Acquisitions

Results of operations of acquired companies are included in the Company’s results of operations as of the respective acquisition dates. The purchase price of each acquisition is allocated to the net assets acquired based on estimates of their fair values at the date of the acquisition. Any purchase price in excess of these net assets is recorded as goodwill. The allocation of purchase price in certain cases may be subject to revision based on the final determination of fair values during the measurement period, which may be up to one year from the acquisition date.

Contingent consideration is recognized at the estimated fair value on the acquisition date. Subsequent changes, after the measurement period has expired, to the fair value of contingent payments are recognized in earnings. Contingent payments related to acquisitions consist of an earn out based on sales less direct production costs, and are valued using discounted cash flow techniques. The fair value of these payments is based upon probability-weighted future revenue estimates and increases or decreases as revenue estimates or expectation of timing of payments changes.

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 $54,000 of patent costs during the first six months of 2017. The Company capitalized approximately $327,000 of patent costs during the first six months of 2016.

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 first-in first-out (FIFO) basis.

Recently Issued and Adopted Accounting Standards

The Company considers the applicability and impact of all ASUs issued, both effective and not yet effective. In May 2014, the FASB issued ASU 2014-09, “Revenue Recognition - Revenue from Contracts with Customers” (ASU 2014-09) that requires companies to recognize revenue when a customer obtains control rather than when companies have transferred substantially all risks and rewards of a good or service. This update is effective for annual reporting periods beginning on or after December 15, 2017 and interim periods therein and requires expanded disclosures. We are in the process of evaluating the impact of the adoption of the standard. We have identified one revenue stream from our contracts with customers: product sales. While our evaluation of our contracts for product sales is in its initial stage, based upon the results of our work to date we currently do not expect the application of the new standard to these contracts to have a material impact to our consolidated financial statements either at initial implementation or on an ongoing basis.

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

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for share-based payment award transactions including (a) income tax consequences; (b) classification of awards as either debt or equity liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has adopted this ASU as of January 1, 2017. The primary amendment impacting the Company's financial statements is the requirement for excess tax benefits or shortfalls on the exercise of stock-based compensation awards to be presented in income tax expense in the Consolidated Statements of Income during the period the award is exercised as opposed to being recorded in Additional paid-in capital on the Consolidated Balance Sheets. The excess tax benefit or shortfall is calculated as the difference between the fair value of the award on the date of exercise and the fair value of the award used to measure the expense to be recognized over the service period. Changes are required to be applied prospectively to all excess tax benefits and deficiencies resulting from the exercise of awards after the date of adoption. The ASU requires a "modified retrospective" approach application for excess tax benefits that were not previously recognized in situations where the tax deduction did not reduce current taxes payable. For the three-month period ended June 30, 2017, the Company recorded an income tax benefit of $2,675,000 related to the excess tax benefit of exercised awards during the period, that would have been recorded in additional paid-in capital during prior years. For the six-month period ended June 30, 2017, the Company recorded an income tax benefit of $2,694,000 related to the excess tax benefit of exercised awards during the period, that would have been recorded in additional paid-in capital during prior years. As the end result is dependent on the future value of the Company's stock as well as the timing of employee exercises, the amount of future impact cannot be quantified at this time. The Company has elected to continue to estimate forfeitures expected to occur to determine the share-based compensation expense.

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 does not believe that this guidance will have a material impact on its consolidated financial statements.

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 is currently assessing the impact the adoption of ASU 2017-04 will have on its consolidated financial statements.

All other ASUs issued and not yet effective for the six months ended June 30, 2017, 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. Acquisition of Stability Inc.

On January 13, 2016, the Company completed the acquisition of Stability Inc., d/b/a Stability Biologics ("Stability"), a provider of human tissue products to surgeons, facilities and distributors serving the surgical, spine and orthopedic sectors of the healthcare industry. As a result of this transaction, the Company acquired all of the outstanding shares of Stability in exchange for $6,000,000 cash, $3,346,000 in stock, represented by 441,009 shares of our common stock, and assumed debt of $1,771,000. Additional one time costs incurred in connection with the transaction totaled $1,088,000 and were included within selling, general and administrative expenses on our Consolidated Statements of Operations in the first quarter of 2016. Contingent consideration may be payable in a formula determined by sales less certain expenses for the years 2016 and 2017. The contingent consideration was valued at $17,450,000 as part of the acquisition accounting and is shown in the schedule below as fair value of earn-out. The Company used a third party specialist to assist us with the valuation. However, the purchase price allocation figures should be attributed to the Company and not to the third party valuation firm. The Company anticipates that any payments to be made will approximate the fair value of the contingent consideration of $17,450,000 determined as of the acquisition date and we have not adjusted the accrued earn-out liability recorded as part of the acquisition accounting except to record interest expense. The contingent consideration was classified as a liability and is adjusted to fair value at each reporting period until payment is made with the changes in fair value recognized as a period expense.

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

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

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

[a] Shares transferred to the Stability sellers were restricted securities pursuant to Rule 144. As such, the sellers
were prevented from selling the shares for a period of six months. In addition, they were subject to contractual
lockups which restricted sales for up to twelve months post-transaction.

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The actual purchase price has been allocated as follows (in thousands):	
Cash paid at closing	$6,000
Working capital adjustment	(480)
Common stock issued (441,009 shares)	3,346
Assumed debt	1,771
Fair value of earn-out	17,450
Total fair value of purchase price	$28,087
Net assets acquired:	
Debt-free working capital	$2,456
Other long-term assets	199
Property, plant and equipment	1,375
Deferred tax liability	(5,896)
Subtotal	(1,866)
Intangible assets:	
Customer relationships	5,330
Patents and know-how	6,790
Trade names and trademarks	450
Non compete agreements	830
Licenses and permits	390
Subtotal	13,790
Goodwill	16,163
Total Assets Purchased	$28,087

Working capital and other assets were composed of the following (in thousands):	
Working capital	
Cash	$140
Prepaid Expenses and other current assets	100
Accounts receivable	2,001
Federal and state taxes receivable	28
Inventory	9,002
Accounts payable and accrued expenses	(8,815)
Debt-free working capital	$2,456
Current portion of long term debt	$(194)
Long-term debt	(560)
Line of Credit	(932)
Shareholder loan	(85)
Assumed Debt	(1,771)
Net working capital	$685

The acquisition was accounted for as a purchase business combination as defined by FASB Topic 805 - "Business Combinations." The fair value of the contingent consideration is measured as a Level 3 instrument. The contingent consideration liability was recorded at fair value on the acquisition date. Increases or decreases in the fair value of contingent consideration can result from changes in anticipated revenue levels and changes in assumed discount periods and rates. As the

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fair value measured is based on significant inputs that are not observable in the market, they are categorized as Level 3. The income valuation approach was applied in determining the fair value of the contingent consideration using a discounted cash flow valuation technique with significant unobservable inputs comprised of projected sales and certain expenses.

The following table presents a reconciliation of those liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) (in thousands):

	Contingent Consideration Obligation
Balance December 31, 2016	$ 17,450
Changes in fair value of contingent consideration (a)	124
Payment of contingent consideration	—
Balance June 30, 2017	$ 17,574

(a) Amount is included in interest expense in the consolidated statement of operations.

The values assigned to intangible assets are subject to amortization. The intangible assets were assigned the following lives for amortization purposes:

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

Goodwill consists of the excess of the purchase price paid over the identifiable net assets and liabilities acquired at fair value.

Goodwill is attributable to the assembled workforce of Stability and the synergies expected to arise following the acquisition. Goodwill is not expected to be deductible for tax purposes. Goodwill was determined using the residual method based on an independent appraisal of the assets and liabilities acquired in the transaction. The Company used a third-party specialist to assist it with estimating the fair value of Goodwill. However, the purchase price allocation figures and residual Goodwill should be attributed to the Company and not to the third-party valuation firm. Goodwill is tested for impairment on an annual basis as defined by FASB Topic 350 - "Intangibles - Goodwill and Other".

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

The amount of the contingent consideration recognized as of the acquisition date was $17,450,000. The structure of the earn-out is such that the Sellers should always earn at least some payout during the applicable periods. The payout to the Sellers is not capped, and therefore there is no pre-determined upper bound to the undiscounted range. Therefore an estimate of the range of outcomes cannot be estimated.

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

4. Inventories

Inventories consisted of the following items as of June 30, 2017, and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Raw materials	$786	$ 1,148
Work in process	6,228	6,677
Finished goods	9,132	10,817
Inventory, gross	16,146	18,642
Reserve for obsolescence	(1,113)	(828)
Inventory, net	$15,033	$ 17,814

5. Property and Equipment

Property and equipment consisted of the following as of June 30, 2017, and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Leasehold improvements	$3,323	$ 3,274
Lab and clean room equipment	10,226	8,666
Furniture and office equipment	8,700	7,051
Construction in progress	2,736	3,300
Property and equipment, gross	24,985	22,291
Less accumulated depreciation	(10,566)	(8,505)
Property and equipment, net	$14,419	$ 13,786

Included in net property and equipment is approximately $427,000 of equipment covered under capital leases. The corresponding liability of approximately $15,000 is included in other liabilities in the accompanying Condensed Consolidated Balance Sheets. The interest rate for the lease is approximately 12% with a maturity date of January 2018.

Also included in net property and equipment is approximately $1.0 million in leasehold improvements paid for by the landlord of the Company's main facility with a corresponding liability included in other liabilities which is amortized over the term of the lease.

Depreciation expense for the six months ended June 30, 2017 and 2016, was approximately $2,061,000 and $1,555,000, respectively, and approximately $1,115,000 and $821,000 for the three months ended June 30, 2017 and 2016, respectively.

6. Intangible Assets and Royalty Agreement

Intangible assets are summarized as follows (in thousands):

	Weighted Average Amortization Lives	June 30, 2017	December 31, 2016
		Cost	Cost
Licenses (a) (b) (c) (d)	7 years	$1,399	$1,399
Patents & Know-How (b) (d)	19 years	14,842	14,839
Customer & Supplier Relationships (b) (d)	13 years	9,091	9,091
Tradenames & Trademarks (d)	indefinite	1,458	1,458
Non-compete agreements	4 years	830	830
In Process Research & Development (b)	various	25	25
Patents in Process (c)	various	2,669	2,618
Total		30,314	30,260
Less Accumulated amortization and impairment charges		(8,025)	(6,992)
Net		$22,289	$23,268

(a) On January 29, 2007, the Company acquired a license from Shriners Hospitals for Children and University of South Florida Research Foundation, Inc. in the amount of $996,000. Within 30 days after the receipt by the Company of approval by the FDA allowing the sale of the first licensed product, the Company is required to pay an additional $200,000 to the licensor. Due to its contingent nature, this amount is not recorded as a liability. The Company will also be required to pay a royalty of 3% on all commercial sales revenue from the licensed products. The Company is also obligated to pay a $50,000 minimum annual royalty payment over the life of the license. As of June 30, 2017, the license was fully amortized.

(b) On January 5, 2011, the Company acquired Surgical Biologics, LLC. As a result, the Company recorded intangible assets for Customer & Supplier Relationships of $3,761,000, Patents & Know-How of $7,690,000, Licenses of $13,000, Tradenames & Trademarks of $1,008,000 and In-Process Research & Development of $25,000. For the six months ended June 30, 2017, approximately $1,000 of costs associated with patents granted during the period were capitalized and included in Patents & Know-How subject to amortization over the life of the patents.

(c) Patents in Process consist of capitalized external legal and other registration costs in connection with internally developed tissue-based patents that are pending. Once issued, the costs associated with a given patent will be included in Patents & Know-How under intangible assets subject to amortization.

(d) On January 13, 2016, the Company acquired Stability. As a result, the Company recorded intangible assets for Patents & Know-How of $6,790,000, Customer & Supplier Relationships of $5,330,000, Non-compete agreements of $830,000, Tradenames & Trademarks of $450,000 and Licenses of $390,000.

Amortization expense for the six months ended June 30, 2017 and 2016, was approximately $1,033,000 and $1,257,000, respectively, and $507,000 and $447,000 for the three months ended June 30, 2017 and 2016, respectively.

Expected future amortization of intangible assets as of June 30, 2017, is as follows (in thousands):

Year ending December 31,	Estimated Amortization Expense
2017 (a)	$ 1,012
2018	1,829
2019	1,829
2020	1,622
2021	1,622
Thereafter	12,917
	$ 20,831

(a) Estimated amortization expense for the year ending December 31, 2017, includes only amortization to be recorded after June 30, 2017.

7. Credit Facility

On October 12, 2015, the Company and its subsidiaries entered into a Credit Agreement (the "Credit Agreement") with certain lenders and Bank of America, N.A., as administrative agent. The Credit Agreement establishes a senior secured revolving credit facility in favor of the Company with a maturity date of October 12, 2018 and an aggregate lender commitment of up to $50 million. The Credit Agreement also provides for an uncommitted incremental facility of up to $35 million, which can be exercised as one or more revolving commitment increases or new term loans, all subject to certain customary terms and conditions set forth in the Credit Agreement. The obligations of the Company under the Credit Agreement are guaranteed by the Company's subsidiaries. The obligations of the loan parties under the Credit Agreement and the other credit documents are secured by liens on and security interests in substantially all of the assets of each of the loan parties and a pledge of the equity interests of each subsidiary owned by a loan party, subject to certain customary exclusions. Borrowings under the facility will bear interest at LIBOR plus 1.5% to 2.25%. Fees paid in connection with the initiation of the credit facility totaled approximately $500,000. These deferred financing costs are being amortized to interest expense over the three-year life of the facility. The Credit Agreement contains customary representations, warranties, covenants and events of default, including restrictions on certain payments of dividends by the Company. As of June 30, 2017, there were no outstanding revolving loans under the credit facility, and the Company was in compliance with all covenants under the Credit Agreement.

8. Net Income Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$8,069	$ 1,975	$12,396	$ 3,172
Denominator for basic earnings per share - weighted average shares	106,805,166	106,191,932	106,254,438	105,873,727
Effect of dilutive securities: Stock options and restricted stock outstanding(a)	10,480,719	956,483	9,601,884	6,221,324
Denominator for diluted earnings per share - weighted average shares adjusted for dilutive securities	117,285,885	107,148,415	115,856,322	112,095,051
Income per common share - basic	$0.08	$ 0.02	$0.12	$ 0.03
Income per common share - diluted	$0.07	$ 0.02	$0.11	$ 0.03

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Outstanding Stock Options	2,352,318	5,644,128	1,729,407	5,805,870
Restricted Stock Awards	8,128,385	312,355	7,872,477	415,454
	10,480,703	5,956,483	9,601,884	6,221,324

9. Equity

Stock Incentive Plans

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

Stock Options

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

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2017	12,552,608	$ 3.61		
Granted	—	$ —		
Exercised	(1,957,572)	$ 4.70		
Unvested options forfeited	(25,005)	$ 6.46		
Vested options expired	(66,825)	$ 5.71		
Outstanding at June 30, 2017	10,503,206	$ 3.39	4.91	$121,705,038
Vested at June 30, 2017	10,358,873	$ 3.32	4.87	$120,706,504
Vested or expected to vest at June 30, 2017 (a)	10,504,435	$ 3.38	4.87	$121,696,530

(a) Includes forfeiture-adjusted unvested shares.

The intrinsic value of the options exercised during the six months ended June 30, 2017, was approximately $13,104,345.

Following is a summary of stock options outstanding and exercisable at June 30, 2017:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$0.70 - $1.09	1,099,429	3.1	$ 0.91	1,099,429	$ 0.91
$1.10 - $1.65	4,297,879	4.0	1.30	4,297,879	1.30
$2.45 - $3.75	909,853	5.2	2.77	909,853	2.77
$3.95 - $5.99	1,916,931	5.9	5.18	1,918,965	5.18
$6.02 - $9.13	2,120,489	6.6	7.04	2,028,160	7.04
$9.22 - $10.99	158,625	7.5	10.05	104,587	10.05
	10,503,206	4.9	$ 3.39	10,358,873	$ 3.32

Total unrecognized compensation expense related to granted stock options at June 30, 2017, was approximately $227,673 and will be charged to expense ratably through December 2017.

The fair value of options granted by the Company is estimated on the date of grant using the Black-Scholes-Merton option-pricing model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. Expected volatilities are based on historical volatility of peer companies and other factors estimated over the expected term of the options. The term of employee options granted is derived using the “simplified method,” which computes expected term as the mid point between the weighted average time to vesting and the contractual maturity. The simplified method was used due to the Company's lack of sufficient historical data to provide a reasonable basis upon which to estimate the expected term due to the limited period of time its equity shares have been publicly traded. The term for non-employee options is generally based upon the contractual term of the option. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term or contractual term as described.

There were no options granted during the six months ended June 30, 2017 and June 30, 2016.

Restricted Stock Awards

Activity with respect to restricted stock awards for the six months ended June 30, 2017 is summarized as follows and includes 17,539 shares of common stock valued at approximately $166,000 which were issued under the 2016 Plan to a consultant in return for services performed:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2017	3,828,445	$8.53
Granted	2,833,678	8.82
Vested	(1,288,485)	8.33
Forfeited	(192,198)	8.66
Unvested at June 30, 2017	5,181,440	$8.74

As of June 30, 2017, there was approximately $35,526,766 of total unrecognized stock-based compensation related to time-based, nonvested restricted stock. That expense is expected to be recognized on a straight-line basis over a weighted-average period of 2.16 years, which approximates the remaining vesting period of these grants. All shares noted above as unvested are considered issued and outstanding at June 30, 2017.

For the three and six months ended June 30, 2017 and 2016, the Company recognized stock-based compensation as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of sales	$138	$95	$274	$190
Research and development	143	155	277	360
Selling, general and administrative	4,974	4,259	9,375	8,574
	$5,255	$4,509	$9,926	$9,124

Treasury Stock

On May 12, 2014, our Board of Directors authorized the repurchase of up to $10 million of our common stock from time to time, through December 31, 2014. Our Board subsequently extended the program until December 31, 2017, and increased the total authorization to $100 million as of July 26, 2017. The timing and amount of repurchases will depend upon the Company's stock price, economic and market conditions, regulatory requirements and other corporate considerations. The Company may initiate, suspend or discontinue purchases under the stock repurchase program at any time.

For the six months ended June 30, 2017, the Company purchased 1,685,993 shares of its common stock for a purchase price of approximately $14,693,000 before brokerage commissions of approximately $51,000. As of June 30, 2017, the Company had approximately $15,243,000 of availability remaining under the repurchase program. In addition, the Company purchased 313,563 shares surrendered by employees to satisfy tax withholding obligations upon vesting of restricted stock for the six months ended June 30, 2017.

Additionally, for the six months ended June 30, 2017, the Company reissued 2,277,073 shares from the Treasury for restricted stock grants and stock option exercises, net of forfeitures, with an aggregate carrying value of approximately $18,659,439.

10. Income taxes

The effective tax rates for continuing operations of (14.2)% and 42.7% for the three months ended June 30, 2017 and June 30, 2016, respectively, were determined using an estimated annual effective tax rate and includes the impact of discrete items of approximately ($3,560,000) in 2017 and $0 in 2016, respectively.

The effective tax rates for continuing operations of 5.4% and 34.7% for the six months ended June 30, 2017 and June 30, 2016, respectively, were determined using an estimated annual effective tax rate and includes the impact of discrete items of approximately ($3,916,000) in 2017 and ($350,000) in 2016, respectively. As of June 2017, the projected annual effective tax rate for 2017 is 35.3%.

11. Supplemental disclosure of cash flow and non-cash investing and financing activities:

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

	Six Months Ended June 30,	
	2017	2016
Cash paid for interest	$204	$ 76
Income taxes paid	8,289	631
Share issuance of 441,009 shares in connection with acquisition	—	3,346
Share issuances of 17,539 and 20,406 shares in exchange for services performed, respectively	166	173

12. Contractual Commitments and Contingencies

Contractual Commitments

In addition to the capital leases noted above in Note 5, the Company has entered into operating lease agreements for facility space and equipment. These leases expire over the next seven years and generally contain renewal options. The Company anticipates that most of these leases will be renewed or replaced upon expiration. The Company also has commitments for meeting space.

The estimated annual lease payments, meeting space commitments are as follows (in thousands):

12-month period ended June 30,	
2018	$2,918
2019	2,133
2020	1,907
2021	1,618
2022	1,600
Thereafter	1,170
	$11,346

Rent expense for the six months ended June 30, 2017 and 2016, was approximately $842,000 and $859,000, respectively, and was approximately $407,000 and $436,000 for the three months ended June 30, 2017 and 2016, respectively, and is allocated among cost of sales, research and development and selling, general and administrative expenses.

Letters of Credit

As a condition of the lease for the Company's main facility, the Company is obligated under standby letters of credit in the amount of approximately $52,000.

FDA Untitled Letter and Draft Guidance

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

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

On October 28, 2015, the FDA issued for comment, "Draft Guidance for Industry and FDA Staff: Homologous Use of Human Cells, Tissues, and Cellular and Tissue-Based Products." The Company submitted comments on this Homologous Use draft guidance as well. On September 12 and 13, 2016, the FDA held a public hearing to obtain input on the Homologous Use draft guidance and the previously released Minimal Manipulation draft guidance, as

well as other recently issued guidance documents on HCT/Ps. The Company awaits further decision from the FDA on the draft guidances, but anticipates this will be a lengthy process.

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

Company to recall its micronized products. Revenues from micronized products comprised approximately 10% of the Company's revenues in 2016.

Former Employee Litigation

On December 13, 2016, the Company filed lawsuits against former employees Jess Kruchoski (in the lawsuit styled MiMedx Group, Inc. v. Academy Medical, LLC, et. al. in the County Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida (the "Florida Action")) and Luke Tornquist (in the lawsuit styled MiMedx Group, Inc., v. Luke Tornquist in the Superior Court for Cobb County, Georgia, which was removed to the United States District Court for the Northern District of Georgia (the "Georgia Action")). Both the Florida and Georgia Actions assert claims against Messrs. Kruchoski and Tornquist that each of them violated their restrictive covenants entered into with the Company, that each of them misappropriated trade secrets of the Company, that each of them tortiously interfered with contracts between the Company and its customers and employees and that each of them breached his duty of loyalty owed to the Company, among other claims. The Company sought injunctive relief against each of Mr. Kruchoski and Tornquist to enforce its restrictive covenants in place with each of them. The Company obtained consent injunctions from each party enforcing those covenants. The Company is also seeking monetary damages in an amount to be determined at trial

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

On January 26, 2017, the Company and Mr. Petit filed motions to dismiss the Minnesota Action. In response, Messrs. Kruchoski and Tornquist voluntarily dismissed the Minnesota Action without prejudice on February 7, 2017. On February 7, 2017, Mr. Tornquist filed his Answer and Counterclaims in the Georgia Action wherein he asserted claims similar to those he had asserted in the Minnesota Action, with the exception that he did not include a claim of tortious interference against Mr. Petit. On February 13, 2017, the Judge in the Georgia Action entered a Consent Order enforcing the restrictive covenants against Mr. Tornquist. On May 5, 2017, Mr. Tornquist filed an amended Answer and Counterclaim, adding claims for breach of contract and violations of O.C.G.A 10-1-702 relating to claims for unpaid commissions and common law defamation claims against the Company and Mr. Petit. The Company and Mr. Petit both filed motions to dismiss the defamation claims, which are currently pending before the Court. On February 27, 2017, the Judge in the Florida Action entered a Consent Order enforcing the restrictive covenants against Mr. Kruchoski. The Defendants in the Florida Action filed motions to dismiss, which were denied on July 10, 2017. The Company filed an Amended Complaint on July 12, 2017 asserting all the same causes of action for the purpose of making non-substantive edits requested by the Court.

On February 15, 2017, Mr. Kruchoski filed a new lawsuit in the United States District Court for the Northern District of Georgia against the Company and Mr. Petit, making many of the same allegations in that suit as were made in the Minnesota Action, with the addition of claims against the Company and Mr. Petit for defamation. In March 2017, the Company and Mr. Petit both filed motions to dismiss Mr. Kruchoski's claims. On June 13, 2017, the Court granted the motions to dismiss, finding that Mr. Kruchoski's claims are governed by the forum selection clause in his contracts and are compulsory counterclaims and should, therefore, be brought in the Florida Action.

On January 15, 2017, the Company initiated a lawsuit against former employee and sales agent Tracy Lucas and his company, BioResolutions LLC d/b/a Halo Wound Solutions ("Halo") in the Iowa state district court for Polk County. The suit alleges breach of a sales agency contract against Mr. Lucas, and alleges conspiracy to breach MiMedx's employees' duties of loyalty, tortious interference with MiMedx's employee and customer relationships, and misappropriation of trade secrets against all defendants relating to the defendants' use of then-current MiMedx employees to sell or market Halo's products to various entities, including MiMedx's customers. Defendants filed a motion for judgment on the pleadings which was denied by the Court on June 27, 2017. The case is currently in the discovery phase.

The Company continues to vigorously pursue its claims asserted in all of these actions and also to vigorously defend against the lawsuits and counterclaims asserted against it.

Patent Litigation

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

The Liventa Action

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

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

The Bone Bank Action

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

The NuTech Action

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

The Vivex Action

On April 1, 2016, the Company also filed a patent infringement lawsuit against Vivex BioMedical (“Vivex”) for permanent injunctive relief and unspecified damages (the "Vivex Action"). The lawsuit was filed in the United States District Court for the Northern District of Georgia. The patent at issue is the 8,709,494 patent (the "'494" patent).

Vivex answered the Company’s complaint and filed counterclaims of non-infringement and invalidity. On January 4, 2017, the Court granted a joint motion to stay the proceedings pending the outcome of the Bone Bank Action.

IPRs

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

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

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

Further, on March 31, 2017, Vivex filed a petition to initiate a new IPR with respect to the ‘494 patent, which the Company intends to vigorously oppose.

Schedule II Valuation and Qualifying Accounts
MIMEDX GROUP, INC. AND SUBSIDIARIES
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
Three and Six Months Ended June 30, 2017 and 2016 (in thousands)

	Balance at Beginning of Period	Additions charged to Expense or Revenue	Deductions and write-offs	Balance at End of Period
For the three months ended June 30, 2017				
Allowance for doubtful accounts	$ 6,769	$ 500	$ (50)	$ 7,219
Allowance for product returns	5,037	2,439	(4,015)	3,461
Allowance for obsolescence	974	305	(166)	1,113
For the three months ended June 30, 2016				
Allowance for doubtful accounts	$ 3,872	$ 233	$ (19)	$ 4,086
Allowance for product returns	1,708	2,106	(1,623)	2,191
Allowance for obsolescence	604	1,335	(159)	1,780
For the six months ended June 30, 2017				
Allowance for doubtful accounts	$ 4,842	$ 2,450	$ (73)	$ 7,219
Allowance for product returns	4,894	5,070	(6,503)	3,461
Allowance for obsolescence	828	741	(456)	1,113
For the six months ended June 30, 2016				
Allowance for doubtful accounts	$ 3,270	$ 835	$ (19)	$ 4,086
Allowance for product returns	1,262	3,467	(2,538)	2,191

Allowance for obsolescence	397	1,570	(187)	1,780

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

Overview

The Company operates in one business segment, Regenerative Biomaterials, which includes the design, manufacture and marketing of products and tissue processing services for the Wound Care, Surgical, Sports Medicine, Ophthalmic and Dental market categories. The MiMedx allograft product families include our: dHACM family with AmnioFix® and EpiFix® brands; Amniotic Fluid family with OrthoFlo brand; Umbilical family with EpiCord® and AmnioCord® brands; Placental Collagen family with CollaFix™ and AmnioFill® brands; and Bone family with Physio® brand. AmnioFix and EpiFix are our tissue technologies processed from human amni