

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

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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, 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 30062

Marietta, GA (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  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):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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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

As of October 13, 2017, there were 111,034,873 shares of the registrant's common stock outstanding.

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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.

**Important Cautionary Statement**

This Quarterly Report on Form 10-Q includes forward-looking statements, including, among others, statements regarding future economic performance and financial condition, including future levels of amortization expense, and our management's plans and objectives. These statements also may be identified by words such as “believe,” “except,” “may,” “plan,” “potential,” “will” and similar expressions.

Forward-looking statements are subject to significant risks and uncertainties, and we caution investors against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Such statements are based upon the current beliefs and expectations of management and on information currently available to management. They speak as of the date hereof, and we do not assume any obligation to update the statements made herein or to update the reasons why actual results could differ from those contained in such statements in light of new information or future events.

We list certain of the factors that could cause actual results to differ materially from those described in the forward-looking statements in Part I, Item 1A., "Risk Factors" in our 2016 Annual Report on Form 10-K and also include risks discussed in this report and in other periodic reports that we file with the Securities and Exchange Commission ("SEC").

## Part I - FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

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

	September 30, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36,522	\$ 34,391
Accounts receivable, net	59,581	67,151
Inventory, net	10,419	17,814
Prepaid expenses	6,662	5,894
Other current assets	926	1,288
Total current assets	114,110	126,538
Property and equipment, net of accumulated depreciation	13,264	13,786
Goodwill	19,894	20,203
Intangible assets, net of accumulated amortization	10,377	23,268
Deferred tax asset, net	17,671	9,114
Other assets	3,391	354
Total assets	\$ 178,707	\$ 193,263
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,767	\$ 11,436
Accrued compensation	15,092	12,365
Accrued expenses	8,613	10,941
Current portion of earn out liability	—	8,740
Income taxes	2,329	5,768
Other current liabilities	358	1,482
Total current liabilities	35,159	50,732
Earn out liability	—	8,710
Other liabilities	1,076	821
Total liabilities	36,235	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; 112,703,926 issued and 111,035,248 outstanding at September 30, 2017 and 110,212,547 issued and 109,862,787 outstanding at December 31, 2016	112	110
Additional paid-in capital	163,446	161,261
Treasury stock at cost: 1,668,678 shares at September 30, 2017 and 349,760 shares at December 31, 2016	(24,784	) (2,216
Accumulated earnings (deficit)	3,698	) (26,155
Total stockholders' equity	142,472	133,000
Total liabilities and stockholders' equity	\$ 178,707	\$ 193,263

See notes to condensed consolidated financial statements

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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,	
	2017	2016	2017	2016
Net sales	\$84,573	\$ 64,429	\$233,592	\$ 175,139
Cost of sales	9,599	7,997	26,972	23,338
Gross margin	74,974	56,432	206,620	151,801
Operating expenses:				
Research and development expenses	5,481	2,919	14,430	8,582
Selling, general and administrative expenses	60,233	48,179	168,498	131,599
Amortization of intangible assets	418	631	1,451	1,889
Operating income	8,842	4,703	22,241	9,731
Other income (expense)				
Gain on divestiture	4,274	—	4,274	—
Interest expense, net	(43	) (87	) (337	) (254
Income before income tax provision	13,073	4,616	26,178	9,477
Income tax provision (expense) benefit	4,384	(1,295	) 3,675	(2,984
Net income	\$17,457	\$ 3,321	\$29,853	\$ 6,493
Net income per common share - basic	\$0.16	\$ 0.03	\$0.28	\$ 0.06
Net income per common share - diluted	\$0.15	\$ 0.03	\$0.26	\$ 0.06
Weighted average shares outstanding - basic	106,871,430	105,991,990	106,469,278	105,927,890
Weighted average shares outstanding - diluted	117,501,925	112,361,179	116,547,006	112,193,701

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 Capital	Treasury Stock		Accumulated	
	Shares	Amount		Shares	Amount	Earnings (Deficit)	Total
Balance December 31, 2016	110,212,547	\$ 110	\$ 161,261	349,760	\$(2,216)	\$(26,155)	\$ 133,000
Share-based compensation expense	—	—	15,232	—	—	—	15,232
Exercise of stock options	1,097,933	1	(2,697)	(1,319,836)	14,286	—	11,590
Issuance of restricted stock	1,393,446	1	(13,108)	(1,630,093)	13,107	—	—
Restricted stock shares canceled/forfeited	—	—	2,717	283,198	(2,717)	—	—
Shares issued for services performed	—	—	41	(17,539)	125	—	166
Share repurchase	—	—	—	3,644,327	(44,032)	—	(44,032)
Shares repurchased for tax withholding	—	—	—	358,861	(3,337)	—	(3,337)
Net income	—	—	—	—	—	29,853	29,853
Balance September 30, 2017	112,703,926	\$ 112	\$ 163,446	1,668,678	\$(24,784)	\$ 3,698	\$ 142,472

See notes to condensed consolidated financial statements



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

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$29,853	\$6,493
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	3,074	2,394
Amortization of intangible assets	1,451	1,889
Amortization of inventory fair value step-up	203	1,471
Amortization of deferred financing costs	135	136
Impairment of intangible assets	357	—
Share-based compensation	15,232	13,826
Change in deferred income taxes	(8,557 )	(449 )
Gain on divestiture	(4,274 )	—
Increase (decrease) in cash, net of effects of acquisition and divestiture, resulting from changes in:		
Accounts receivable	5,165	(7,671 )
Inventory	3,738	(3,599 )
Prepaid expenses	(792 )	(2,023 )
Other assets	(402 )	286
Accounts payable	478	(3,941 )
Accrued compensation	2,873	(4,223 )
Accrued expenses	(2,228 )	2,020
Income taxes	(3,438 )	2,621
Other liabilities	(794 )	(82 )
Net cash flows from operating activities	42,074	9,148
Cash flows from investing activities:		
Purchases of equipment	(3,998 )	(5,301 )
Stability acquisition	—	(7,631 )
Fixed maturity securities redemption	—	3,000
Patent application costs	(144 )	(515 )
Net cash flows from investing activities	(4,142 )	(10,447)
Cash flows from financing activities:		
Proceeds from exercise of stock options	11,590	2,548
Share repurchase under repurchase plan	(44,032 )	(10,378)
Share repurchase for tax withholdings on vesting of restricted stock	(3,337 )	(892 )
Deferred financing costs	—	(106 )
Payments under capital lease obligations	(22 )	(21 )
Net cash flows from financing activities	(35,801 )	(8,849 )
Net change in cash	2,131	(10,148)
Cash and cash equivalents, beginning of period	34,391	28,486

