

AxoGen, Inc.

Condensed Consolidated Balance Sheets

	September 30, 2012	December 31, 2011
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,445,099	\$ 8,190,781
Accounts receivable	925,544	797,654
Inventory	2,722,670	1,760,540
Prepaid expenses and other	89,835	133,500
<b>Total current assets</b>	<u>8,183,148</u>	<u>10,882,475</u>
<b>Property and equipment, net</b>	139,362	247,824
<b>Goodwill</b>	169,987	169,987
<b>Intangible assets</b>	736,772	899,480
<b>Deferred Financing Costs</b>	345,611	295,276
<b>Other assets</b>	118,891	--
<b>Total Assets</b>	<u>\$ 9,693,771</u>	<u>\$ 12,495,042</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,863,494	\$ 1,585,100
Current portion of long-term debt	1,885,972	434,734
<b>Total current liabilities</b>	<u>3,749,466</u>	<u>2,019,834</u>
<b>Long-term debt</b>	4,739,305	4,403,737
<b>Total liabilities</b>	<u>8,488,771</u>	<u>6,423,571</u>
<b>Commitments and contingencies</b>	--	--
<b>Stockholders' equity:</b>	<u>111,046</u>	<u>110,622</u>
Common stock, \$.01 par value; 50,000,000 shares authorized; 11,104,596 and 11,062,188 shares issued and outstanding		
Additional paid-in capital	54,900,742	54,391,784
Accumulated deficit	(53,806,788)	(48,430,935)
<b>Total stockholders' equity</b>	<u>1,205,000</u>	<u>6,071,471</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 9,693,771</u>	<u>\$ 12,495,042</u>

AxoGen, Inc.  
Consolidated Statements of Operations  
(unaudited)

	Three Months Ended	
	September 30, 2012	September 30, 2011
<b>Revenues</b>	\$ 1,980,849	\$ 1,140,768
<b>Cost of goods sold</b>	542,235	1,130,332
<b>Gross profit</b>	1,438,614	10,436
<b>Costs and expenses:</b>		
Sales and marketing	1,697,317	1,106,942
Research and development	390,395	229,709
General and administrative	1,393,890	1,300,219
<b>Total costs and expenses</b>	3,481,602	2,636,870
<b>Loss from operations</b>	(2,042,988)	(2,626,434)
<b>Other income (expense):</b>		
Interest expense	(145,426)	(318,110)
Interest expense—deferred financing costs	(60,013)	(169,007)
Change in fair value of warrant liability	--	--
Other income (expense)	11,618	381
<b>Total other (expense)</b>	(193,821)	(486,736)
<b>Loss before income taxes</b>	(2,236,809)	(3,113,170)
<b>Income tax benefit</b>	--	--
<b>Net loss</b>	\$(2,236,809)	\$(3,113,170)
Preferred stock dividends (assumes all paid)	--	329,832
<b>Net loss available to common shareholders</b>	(2,236,809)	(3,443,002)
Weighted Average Common Shares outstanding – basic and diluted	11,104,353	1,324,967
<b>Loss Per Common share - basic and diluted</b>	\$(0.20)	\$(2.60)

## AxoGen, Inc.

## Consolidated Statements of Cash Flows

(unaudited)

	Nine Months Ended	
	September 30,	September 30,
	2012	2011
	<u>                    </u>	<u>                    </u>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (5,375,853)	\$ (7,082,234)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	145,891	214,919
Amortization of intangible assets	295,002	36,265
Amortization of deferred financing costs	68,141	1,200,413
Amortization of debt discount	36,806	11,436
Stock-based compensation	478,701	97,499
Change in fair value of warrant liability	--	(62,305)
Interest added to note payable	--	55,562
Change in assets and liabilities:		
Accounts receivable	(127,890)	(109,409)
Inventory	(962,130)	240,446
Prepaid expenses and other	(75,228)	(66,276)
Accounts payable and accrued expenses	278,394	572,833
<b>Net cash used for operating activities</b>	<u>(5,288,166)</u>	<u>(4,890,851)</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(37,429)	(7,858)
Acquisition of intangible assets	(82,294)	(45,454)
Cash acquired with Merger	--	7,201,638
<b>Net cash (used for) provided by investing activities</b>	<u>(119,723)</u>	<u>7,148,326</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	1,750,000	10,500,000
Proceeds from issuance of common stock	--	1,000,000
Repayments of long-term debt	--	(4,732,857)
Debt issuance costs	(118,476)	(301,778)
Proceeds from exercise of stock options	30,741	3,649
Payment of fractional shares from Merger	(58)	--
<b>Net cash provided by financing activities</b>	<u>1,662,207</u>	<u>6,469,014</u>

Net increase (decrease) in cash and cash equivalents	(3,745,682)	8,726,489
<b>Cash and cash equivalents</b> , beginning of year	8,190,781	1,799,048
<b>Cash and cash equivalents</b> , end of period	<u>\$ 4,445,099</u>	<u>\$ 10,525,537</u>
<b>Supplemental disclosures of cash flow activity:</b>		
Cash paid for interest	\$447,144	\$611,501
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Conversion of preferred stock convertible debt and accrued interest into common stock	\$ --	\$ 21,497,955
Accretion of dividends of Series B preferred stock	--	292,330
Accretion of dividends of Series C preferred stock	--	515,577
Accretion of dividends of Series D preferred stock	--	220,444
Preferred stock dividend payable forfeited with the Merger	--	7,076,729
Warrant Liability forfeited with the Merger	--	2,607,510
Debt discount related to warrants issued with debt	--	173,736
Net assets acquired on Merger	--	11,847,916
Note and accrued interest retired with the Merger	--	4,555,562
Reclassification from common stock to additional paid in capital for change in par value	--	11,639