

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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: 0-16159

AxoGen, Inc.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-1301878
(I.R.S. Employer
Identification No.)

13859 Progress Blvd., Suite 100, Alachua, FL
(Address of principal executive offices)

32615
(Zip Code)

386-462-6800
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 Web site, 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-Accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of April 30, 2013 the registrant had 11,137,869 shares of common stock outstanding.

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Forward-Looking Statements

From time to time, in reports filed with the Securities and Exchange Commission (including this Form 10-Q), in press releases, and in other communications to shareholders or the investment community, the Company may provide forward-looking statements concerning possible or anticipated future results of operations or business developments. These statements are based on management’s current expectations or predictions of future conditions, events or results based on various assumptions and management’s estimates of trends and economic factors in the markets in which we are active, as well as our business plans. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “projects”, “forecasts”, “may”, “should”, variations of such words and similar expressions are intended to identify such forward-looking statements. The forward-looking statements may include, without limitation, statements regarding product development, product potential, regulatory environment, sales and marketing strategies, capital resources or operating performance. The forward-looking statements are subject to risks and uncertainties, which may cause results to differ materially from those set forth in the statements. Forward-looking statements in this Form 10-Q should be evaluated together with the many uncertainties that affect the Company’s business and its market, particularly those discussed in the risk factors and cautionary statements in the Company’s filings with the Securities and Exchange Commission. Forward-looking statements are not guarantees of future performance, and actual results may differ materially from those projected. The forward-looking statements are representative only as of the date they are made, and the Company assumes no responsibility to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Condensed Consolidated Balance Sheets

	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,200,447	\$ 13,907,401
Accounts receivable	1,179,138	1,050,089
Inventory	3,420,253	3,151,109
Prepaid expenses and other	142,033	187,256
Total current assets	15,941,871	18,295,855
Property and equipment, net	111,401	108,534
Intangible assets	590,458	573,731
Deferred financing costs	1,208,227	1,252,443
	<u>\$ 17,851,957</u>	<u>\$ 20,230,563</u>
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,418,938	\$ 1,479,752
Total current liabilities	1,418,938	1,479,752
Note Payable – Revenue Interest Purchase Agreement	22,438,404	21,580,252
Total liabilities	<u>23,857,342</u>	<u>23,060,004</u>
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock, \$.01 par value; 50,000,000 shares authorized; 11,127,869 and 11,122,573 shares issued and outstanding	111,279	111,226
Additional paid-in capital	55,169,737	54,908,226
Accumulated deficit	(61,286,401)	(57,848,893)
Total shareholders' equity (deficit)	<u>(6,005,385)</u>	<u>(2,829,441)</u>
	<u>\$ 17,851,957</u>	<u>\$ 20,230,563</u>

See notes to condensed consolidated financial statements.

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AxoGen, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended	
	March 31, 2013	March 31, 2012
Revenues	\$ 2,142,932	\$ 1,653,430
Cost of goods sold	<u>560,243</u>	<u>439,158</u>
Gross profit	1,582,689	1,214,272
Costs and expenses:		
Sales and marketing	1,893,541	1,628,608
Research and development	406,943	296,131
General and administrative	<u>1,605,759</u>	<u>1,230,608</u>
Total costs and expenses	<u>3,906,243</u>	<u>3,155,347</u>
Loss from operations	<u>(2,323,554)</u>	<u>(1,941,075)</u>
Other income (expense):		
Interest expense	(1,067,621)	(125,125)
Interest expense – deferred financing costs	(44,216)	(34,951)
Other income (expense)	<u>(2,117)</u>	<u>(8,174)</u>
Total other income (expense)	<u>(1,113,954)</u>	<u>(168,250)</u>
Net loss	<u>(3,437,508)</u>	<u>(2,109,325)</u>
Net loss available to common shareholders	<u>\$ (3,437,508)</u>	<u>\$ (2,109,325)</u>
Weighted Average Common Shares outstanding – basic and diluted	<u>11,124,633</u>	<u>11,062,339</u>
Loss Per Common share – basic and diluted	<u>\$ (0.31)</u>	<u>\$ (0.19)</u>

See notes to condensed consolidated financial statements.

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AxoGen, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (3,437,508)	\$(2,109,325)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	23,140	55,691
Amortization of intangible assets	14,687	29,419
Amortization of deferred financing costs	44,216	22,713
Amortization of debt discount	—	12,238
Share-based compensation	259,912	157,860
Interest added to note	858,151	—
Change in assets and liabilities:		
Accounts receivable	(129,049)	(96,329)
Inventory	(269,144)	(365,796)
Prepaid expenses and other	45,223	(106,033)
Accounts payable and accrued expenses	(60,814)	(78,727)
Net cash used for operating activities	<u>(2,651,186)</u>	<u>(2,478,289)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(26,007)	(29,313)
Acquisition of intangible assets	(31,415)	(41,236)
Net cash used for investing activities	<u>(57,422)</u>	<u>(70,549)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,654	63
Payment of fractional shares from Merger	—	(59)
Net cash provided by financing activities	<u>1,654</u>	<u>4</u>
Net decrease in cash and cash equivalents	(2,706,954)	(2,548,834)
Cash and cash equivalents, beginning of year	<u>13,907,401</u>	<u>8,190,781</u>
Cash and cash equivalents, end of period	\$11,200,447	\$ 5,641,947
Supplemental disclosures of cash flow activity:		
Cash paid for interest	\$ 172,527	\$ 125,125

See notes to condensed consolidated financial statements.

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AxoGen, Inc. Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of AxoGen, Inc. (the “Company” or “AxoGen”) and its wholly owned subsidiary AxoGen Corporation (“AC”) as of March 31, 2013 and December 31, 2012 and for the three month periods ended March 31, 2013 and 2012. The Company’s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2012, which are included in the Annual Report on Form 10-K for the year ended December 31, 2012. The interim condensed consolidated financial statements are unaudited and in the opinion of management, reflect all adjustments necessary for a fair presentation of results for the periods presented. Results for interim periods are not necessarily indicative of results for the full year. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Organization and Business

Business Summary

The Company is a leading regenerative medicine company dedicated to advancing the science and commercialization of peripheral nerve repair solutions. Peripheral nerves provide the pathways for both motor and sensory signals throughout the body and their damage can result in the loss of function and feeling. In order to improve surgical reconstruction and regeneration of peripheral nerves, the Company has developed and licensed, patented and patent pending technologies. The Company’s innovative approach to regenerative medicine has resulted in first-in-class products that will define their product categories. AxoGen’s products offer a full suite of surgical nerve reconstruction solutions including Avance® Nerve Graft, which the Company believes is the only commercially available processed nerve allograft for bridging severed nerves without the comorbidities associated with a second surgical site, AxoGuard® Nerve Connector, a porcine submucosa ExtraCellular Matrix (“ECM”) coaptation aid for tensionless repair of severed nerves, and AxoGuard® Nerve Protector, a porcine submucosa ECM product used to wrap and protect injured peripheral nerves and reinforce coaptation sites while preventing soft tissue attachments.

3. Summary of Significant Accounting Policies

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred and there is a reasonable assurance of collection of the sales proceeds. Revenues for products are recognized when products are delivered to the customer, at which time title passes to the customer. Once a product is delivered, the Company has no further performance obligations. Delivery is defined as delivery to a customer location or contracted distribution location. At such time, this product cannot be sold to any other customer. Fees charged to customers for storage and shipping of products are recognized as revenues when products are shipped to the customer or end user.

Cash and Cash Equivalents and Concentration

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable and Concentration of Credit Risk

Accounts receivable are carried at the original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer’s

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financial condition, credit history and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. As of March 31, 2013 and December 31, 2012, there were no amounts deemed uncollectible and there was no allowance for doubtful accounts recorded.

Concentrations of credit risk with respect to accounts receivable are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade credit risk. The Company also controls credit risk through credit approvals, credit limits and monitoring procedures.

Inventories

Inventories are comprised of implantable tissue, nerve grafts, Avance® Nerve Graft, AxoGuard® Nerve Connector, AxoGuard® Nerve Protector, and supplies that are valued at the lower of cost (first-in, first-out) or market and consist of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Finished goods	\$2,246,213	\$2,143,176
Work in process	149,561	145,156
Raw materials	<u>1,024,479</u>	<u>862,777</u>
	<u>\$3,420,253</u>	<u>\$3,151,109</u>

Inventories were net of reserve of approximately \$459,000 and \$538,000 at March 31, 2013 and December 31, 2012, respectively.

Income Taxes

The Company has not recorded current income tax expense due to the generation of net operating losses. Deferred income taxes are accounted for using the balance sheet approach which requires recognition of deferred tax assets and liabilities for the expected future consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized. A full valuation allowance has been established on the deferred tax asset as it is more likely than not that future tax benefit will not be realized. In addition, future utilization of the available net operating loss carryforward may be limited under Internal Revenue Code Section 382 as a result of changes in ownership.

The Company identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Company has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company's remaining open tax years subject to examination by the Internal Revenue Service include the years ended December 31, 2009 through 2012; currently there are no examinations in process.

Share-Based Compensation

AxoGen's 2010 Stock Incentive Plan is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. The Company estimates the fair value of each option award issued under the Plan on the date of grant using a Black-Scholes-Merton option pricing model that uses the assumptions noted in the table below. The Company estimates the volatility of its common stock at the date of grant based on the volatility of comparable peer companies which are publicly traded for the periods prior to October 1, 2011, and based on the Company's common stock for periods subsequent to that

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date. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and post-vesting forfeitures. The Company uses the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award. The Company has never paid any cash dividends on its common stock during the periods reflected herein and does not anticipate paying any cash dividends in the foreseeable future. The Company used the following weighted-average assumptions for options granted during the three months ended March 31:

<u>Three months ended March 31,</u>	<u>2013</u>	<u>2012</u>
Expected term (in years)	4.0	4.0
Expected volatility	84.90%	118.17%
Risk free rate	0.56%	0.62%
Expected dividends	0.0%	0.0%

The Company estimates forfeitures when recognizing compensation expense and this estimate of forfeitures is adjusted over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also impact the amount of unamortized compensation expense to be recognized in future periods. The Company did not apply a forfeiture allocation to its unvested options outstanding during the three months ended March 31, 2013 and 2012 as they were deemed insignificant.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The Company's management has reviewed and considered all recent accounting pronouncements and believe there are none that could potentially have a material impact on the Company's consolidated financial condition, results of operations, or disclosures.

4. Intangible Assets

The Company's intangible assets consist of the following:

	<u>March 31,</u> <u>2013</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2012</u>
License agreements	\$ 802,994	\$ 772,230
Patents	64,079	63,429
Less: accumulated amortization	<u>(276,615)</u>	<u>(261,928)</u>
Intangible assets, net	<u>\$ 590,458</u>	<u>\$ 573,731</u>

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License agreements are being amortized over periods ranging from 17-20 years. Patent costs are being amortized over three years. Pending patent costs are not amortizable. Amortization expense for the three months ended March 31, 2013 and 2012 was approximately \$15,000 and \$29,000, respectively. As of March 31, 2013, future amortization of license agreements is expected to be approximately \$44,000 for the remainder of fiscal 2013, \$55,000 for 2014, \$46,000 each year for 2015 through 2018.

License Agreements

The Company has entered into multiple license agreements (the "License Agreements") with the University of Florida Research Foundation ("UFRF") and University of Texas at Austin ("UTA"). Under the terms of the License Agreements, the Company acquired exclusive worldwide licenses for underlying technology used in repairing and regenerating nerves. The licensed technologies include the rights to issued patents and patents pending in the United States and international markets. The effective term of the License Agreements extends through the term of the related patents and the agreements may be terminated by the Company with 60 days prior written notice. Additionally, in the event of default, licensors may terminate an agreement if the Company fails to cure a breach after written notice. The License Agreements contain the key terms listed below:

- AxoGen pays royalty fees ranging from 1% to 3% under the License Agreements based on net sales of licensed products. One of the agreements also contains a minimum royalty of \$12,500 per quarter, which may include a credit in future quarters in the same calendar year for the amount the minimum royalty exceeds the royalty fees. Also, when AxoGen pays royalties to more than one licensor for sales of the same product, a royalty stack cap applies, capping total royalties at 3.75%;
- If AxoGen sublicenses technologies covered by the License Agreements to third parties, AxoGen would pay a percentage of sublicense fees received from the third party to the licensor. Currently, AxoGen does not sublicense any technologies covered by License Agreements. The Company is not considered a sub-licensee under the License Agreements and does not owe any sublicensee fees for its own use of the technologies;
- AxoGen reimburses the licensors for certain legal expenses incurred for patent prosecution and defense of the technologies covered by the License Agreements; and
- Currently, under one of the License Agreements, AxoGen would owe a \$15,000 milestone fee upon receiving a Phase II Small Business Innovation Research or Phase II Small Business Technology Transfer grant involving the licensed technology. The Company has not received either grant and does not owe such a milestone fee. Other milestone fees are due if AxoGen develops certain pharmaceutical or medical device products under the License Agreements. No such products are currently under development.

Royalty fees were \$47,031 and \$37,265 during the three months ended March 31, 2013 and 2012, respectively, and are included in sales and marketing expense on the accompanying condensed consolidated statements of operations.

5. Notes Payable

Notes Payable consists of the following:

	March 31, 2013 (unaudited)	December 31, 2012
Revenue Interest Purchase Agreement with PDL BioPharma, Inc. ("PDL") for aggregate of \$20,800,000 with amounts payable monthly at a high single digit percentage based on the Net Revenues through September 2014; and the greater of (i) high single digit percentage of product revenue or (ii) specific quarterly amounts varying from approximately \$1.3 million to \$2.5 million per quarter through September 2020.	<u>\$22,438,404</u>	<u>\$21,580,252</u>
Long-term Notes Payable	<u>\$22,438,404</u>	<u>\$21,580,252</u>

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Notes Payable

On October 5, 2012, AxoGen entered into a Revenue Interests Purchase Agreement (the "Royalty Contract") with PDL BioPharma, Inc. ("PDL"), pursuant to which the Company sold to PDL the right to receive specified royalties on the Company's Net Revenues (as defined in the Royalty Contract) generated by the sale, distribution or other use of AxoGen's products Avance® Nerve Graft, AxoGuard® Nerve Connector and AxoGuard® Nerve Protector. The Royalty Contract has a term of eight years. Under the Royalty Contract, PDL is to receive royalty payments based on a high single digit royalty rate of the Company's Net Revenues, subject to certain agreed upon minimum payment requirements of approximately \$1.3 to \$2.5 million per quarter which begin in the fourth quarter of 2014 through the third quarter of 2020 as provided in the Royalty Contract. The total consideration PDL paid to the Company was \$20,800,000 (the "Funded Amount"), including \$19,050,000 PDL paid to the Company on October 5, 2012, and \$1,750,000 PDL paid to the Company on August 14, 2012 pursuant to an Interim Revenue Interest Purchase Agreement between the Company and PDL, dated August 14, 2012 (the "Interim Royalty Contract"). Upon the closing (the "Closing") of PDL's purchase of the specified royalties described above, which was concurrent with the execution of the Royalty Contract, the Interim Royalty Contract was terminated.

The Company records interest using its best estimate of the effective interest rate, currently the Company is accruing interest using the specified internal rate of return of the put option. From time to time, the Company will reevaluate the expected cash flows and may adjust the effective interest rate. Determining the effective interest rate requires judgment and is based on significant assumptions related to estimates of the amounts and timing of future revenue streams.

Put Option

Under the Royalty Contract, on October 5, 2016, or in the event of the occurrence of a material adverse event or AxoGen's bankruptcy or material breach of the Royalty Contract, PDL may require AxoGen to repurchase the Assigned Interests at the "Put Price." The Put Price is equal to the sum of (i) an amount that, when paid to PDL, would generate a specified internal rate of return to PDL on the Funded Amount, taking into consideration payments made to PDL by the Company, and (ii) any "Delinquent Assigned Interest Payment" (as defined in the Royalty Contract) the Company owed to PDL.

Change of Control; Call Option

In addition, in the event of a "Change of Control" (as defined in the Royalty Contract), the Company must repurchase the assigned Interests from PDL for a repurchase price equal to the "Change of Control Price" on or prior to the third business day after the occurrence of the Change of Control. The Change of Control Price is equal to the sum of (i) an amount that, when paid to PDL, would generate a specified internal rate of return to PDL on the Funded Amount, taking into consideration payments made to PDL by the Company, and (ii) any "Delinquent Assigned Interest Payment" (as defined in the Royalty Contract) the Company owed to PDL. In addition, at any time after October 5, 2016, the Company, at its option, can call the Royalty Contract for a price equal to the Change of Control Price.

Board Designee

Under the Royalty Contract, during the term of the Royalty Contract PDL is entitled to designate, and AxoGen shall appoint an individual designated by PDL, who shall serve on the Board of Directors of the Company (the "Board") until the Company's 2013 Annual Meeting of Shareholders (the "2013 Annual Meeting"). For the 2013 Annual Meeting and each annual meeting thereafter during the term of the Royalty Contract, the Board shall nominate and recommend the PDL designee as a director nominee to serve on the Board until the next annual meeting and shall include such nomination in AxoGen's proxy statement for the 2013 Annual Meeting

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and each annual meeting thereafter, provided that the election of the PDL designee is subject to shareholders' approval. Should at any time there become a vacancy on the Board as a result of (i) the resignation, death or removal of the PDL designee or (ii) such PDL designee failing to obtain the requisite approval of the Company's shareholders at any annual or special meeting of the Company's shareholders and where no other individual is elected to such vacancy, PDL shall have the right to designate an individual to fill such vacancy, and AxoGen shall take such actions necessary to appoint, such individual to the Board.

Preemptive Rights

Under the Royalty Contract, PDL has preemptive rights with respect to new issuances of AxoGen's equity securities and securities convertible, exchangeable or exercisable into such equity securities.

Restriction on Dividends

Under the Royalty Contract, during the period from October 5, 2012 to December 4, 2016 (or the payment of the Put Price in the event PDL exercises its put option on or prior to December 4, 2016), AxoGen shall not, nor shall it permit any subsidiary to, declare, pay or make any dividend or distribution on any shares of the common stock or preferred stock of such entity (other than dividends or distributions payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock, or of any options to purchase or acquire any such shares of common or preferred stock of any such entity (collectively, "Restricted Payments"), except that: (i) each subsidiary may make direct or indirect Restricted Payments to the Company; and (ii) the Company and each subsidiary may purchase, redeem or otherwise acquire Equity Interests issued by it solely with the proceeds received from the substantially concurrent issue of new shares of its common stock or other common Equity Interests. For purposes of the Royalty Contract, "Equity Interests" of any person means any and all shares, rights to purchase, options, warrants, general, limited or limited liability partnership interests, member interests, participation or other equivalents of or interest in (regardless of how designated) equity of such entity, whether voting or nonvoting, including common stock, preferred stock, convertible securities or any other "equity security" (as such term is defined in Rule 3a11-1 under the Securities Exchange Act of 1934, as amended).

Guarantee and Collateral Agreement

In connection with the Royalty Contract, on October 5, 2012, AxoGen and AC, entered into a Guarantee and Collateral Agreement (the "Guarantee and Collateral Agreement") with PDL, pursuant to which (i) AC unconditionally and irrevocably guarantees to PDL the prompt and complete payment and performance by AxoGen when due of the "Secured Obligations," which include the Company's obligations under the Royalty Contract, and any other obligations that AxoGen may owe to PDL under the Royalty Contract and other transaction documents; and (ii) each of the Company and AC grants to PDL a security interest in certain collateral as specified in the Guarantee and Collateral Agreement for the prompt and complete payment and performance when due of the Secured Obligations.

The minimum contractual payments related to the note payable – revenue royalty are: 2013- a high single digit royalty rate applied to net revenues as defined in the agreement; 2014- a high single digit royalty rate applied to net revenues for the first three quarters plus \$1,250,805 in the fourth quarter of 2014; 2015-\$6,781,440; 2016-\$9,232,642.; 2017—\$9,000,000; and \$25,002,000 thereafter.

6. Stock Options

The Company granted 153,000 shares of stock options pursuant to its 2010 Stock Incentive Plan for the three months ended March 31, 2013. Stock-based compensation expense was \$259,912 and \$157,860 for the three months ended March 31, 2013 and 2012, respectively. Total future stock compensation expense related to nonvested awards is expected to be approximately \$1,437,000 at March 31, 2013.

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ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context otherwise requires, all references in this report to “AxoGen,” “the Company,” “we,” “us” and “our” refer to AxoGen, Inc. and its wholly owned subsidiary AxoGen Corporation (“AC”) after the Merger (as defined below), and AC before the Merger.

OVERVIEW

AxoGen is a leading regenerative medicine company dedicated to advancing the science and commercialization of peripheral nerve repair solutions. Peripheral nerves provide the pathways for both motor and sensory signals throughout the body and their damage can result in the loss of function and feeling. In order to improve surgical reconstruction and regeneration of peripheral nerves, AxoGen has developed and licensed patented and patent pending technologies. AxoGen’s innovative approach to regenerative medicine has resulted in first-in-class products that will define their product categories. AxoGen’s products offer a full suite of surgical nerve reconstruction solutions including Avance® Nerve Graft, which the Company believes is the only commercially available processed nerve allograft for bridging severed nerves without the comorbidities associated with a second surgical site, AxoGuard® Nerve Connector, a porcine submucosa ExtraCellular Matrix (“ECM”) coaptation aid for tensionless repair of severed nerves, and AxoGuard® Nerve Protector, a porcine submucosa ECM product used to wrap and protect injured peripheral nerves and reinforce coaptation sites while preventing soft tissue attachments.

Revenue from the distribution of these products is the main contributor to AxoGen’s total reported sales and has been the key component of its growth to date. AxoGen revenues increased in the first quarter of 2013 compared to the first quarter of 2012 primarily as a result of sales to new accounts and increased product usage by existing accounts. AxoGen has continued to broaden its sales and marketing focus which is expected to have a positive contribution to its revenue growth in the long term, even though in the near term revenue growth may lag behind expense increase.

Results of Operations

Comparison of the Three Months Ended March 31, 2013 and 2012

Revenues

Revenues for the three months ended March 31, 2013 increased 29.6% to approximately \$2,143,000 as compared to approximately \$1,653,000 for the three months ended March 31, 2012. This increase was primarily a result of sales to new accounts and increased product usage by existing accounts.

Gross Profit

Gross profit for the three months ended March 31, 2013 increased 30.4% to approximately \$1,583,000 as compared to approximately \$1,214,000 for the three months ended March 31, 2012, primarily attributable to the increased revenues in the first quarter of 2013, manufacturing efficiencies and a product price increase instituted in March 2013, partially offset by an increase in the inventory reserve. As a result, gross margin also improved to 73.9% for the three months ended March 31, 2013 as compared to 73.4% for the same period in 2012.

Costs and Expenses

Total cost and expenses increased 23.8% to approximately \$3,906,000 for the three months ended March 31, 2013 as compared to approximately \$3,155,000 for the three months ended March 31, 2012. These increases were primarily due to increasing sales and marketing activities and increases in salaries as AxoGen hired additional personnel to meet its current and expected growth. To a lesser extent, these increases were also attributable to expenses associated with being a public company and research and development costs associated with the Company’s preparation for its clinical trial. As a percentage of revenues, total operating expenses were 182.3% for the three months ended March 31, 2013 as compared to 190.9% for the three months ended March 31, 2012. Such lower total costs and expenses as a percentage of revenue were primarily a result of the Company’s revenue increase outpacing costs and expenses increase.

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Sales and marketing expenses increased 16.3% to approximately \$1,894,000 for the three months ended March 31, 2013 as compared to approximately \$1,629,000 for the three months ended March 31, 2012. This increase was primarily due to expansion of the direct sales force and increased support for both its direct sales force and independent distributors. As a percentage of revenues, sales and marketing expenses were 88.4% for the three months ended March 31, 2013 compared to 98.5% for the three months ended March 31, 2012. Such lower sales and marketing expenses as a percentage of revenue were a result of the revenue increase outpacing costs and expenses increase.

General and administrative expenses increased 30.5% to approximately \$1,606,000 for the three months ended March 31, 2013 as compared to approximately \$1,231,000 for the three months ended March 31, 2012. As a percentage of revenues, general and administrative expenses were 74.9% for the three months ended March 31, 2013 as compared to 74.5% the three months ended March 31, 2012. The increase was a result of increased payroll and benefits, public company related expenditures, travel and other general expenses.

Research and development expenses increased approximately 37.5% to approximately \$407,000 in the three months ended March 31, 2013 as compared to approximately \$296,000 for the three months ended March 31, 2012. Development includes AxoGen's clinical efforts and substantially all of the increase in research and development expenses from 2012 to 2013 related to expenditures for such clinical activity. Because AxoGen's products are developed for sale in their current use, it conducts limited direct research and product development, but intends to pursue new products and new applications for existing products in the future that may result in increased spending.

Other Income and Expenses

Interest expense increased 754% to approximately \$1,068,000 for the three months ended March 31, 2013 as compared to approximately \$125,000 for the three months ended March 31, 2012. This increase was primarily due to the interest accrued related to PDL. As a result of the accounting treatment for the PDL transaction, interest expense included approximately \$895,000 of non-cash expense that is expected to be paid in the future based upon the terms of the PDL transaction and increases in AxoGen revenues. Other than the \$895,000 non-cash expense, the remaining \$173,000 in interest expense for the three months ended March 31, 2013 is related to cash paid for interest on the note payable. The \$125,000 interest expense for the three months ended March 31, 2012 was cash paid for interest on the previous debt.

Interest expense—deferred financing costs increased 25.7% to approximately \$44,000 for the three months ended March 31, 2013 as compared to approximately \$35,000 for the three months ended March 31, 2012. This increase is primarily due to higher deferred financing cost amortization associated with the PDL agreement when compared to the previous bank debt.

Income Taxes

The Company had no income tax expenses or income tax benefit for each of the three months ended March 31, 2013 and 2012 due to incurrence of net operating loss in each of these periods.

Effect of Inflation

Inflation has not had a significant impact on the Company's operations or cash flow.

Liquidity and Capital Resources

Note Payable

On October 5, 2012, AxoGen entered into the Royalty Contract with PDL. Proceeds from the PDL transaction were used to fully repay a prior credit facility and extinguish AxoGen's long-term debt obligations thereunder.

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When the Company entered into the Royalty Contract with PDL, pursuant to which the Company sold to PDL the right to receive specified royalties on the Company's Net Revenues (as defined in the Royalty Contract) generated by the sale, distribution or other use of the Company's products Avance® Nerve Graft, AxoGuard® Nerve Protector and AxoGuard® Nerve Connector (the "Acquired Revenues"). The Royalty Contract has a term of eight years. Under the Royalty Contract, PDL is to receive royalty payments currently paid weekly based on a high single digit royalty rate of the Company's Net Revenues (the "Assigned Interests"), subject to certain agreed upon minimum payment requirements which begin in the fourth quarter of 2014 as provided in the Royalty Contract. The total consideration PDL paid to the Company was \$20,800,000 (the "Funded Amount"), including \$19,050,000 PDL paid to the Company on October 5, 2012, and \$1,750,000 PDL paid to the Company on August 14, 2012 pursuant to the Interim Royalty Contract. Upon the closing of PDL's purchase of the specified royalties described above, which was concurrent with the execution of the Royalty Contract, the Interim Royalty Contract was terminated. There are no financial covenants or other restrictions on the use of capital by AxoGen as a result of the Royalty Contract, however, PDL has a first perfected security interest in the Assigned Interests.

The Company had no material commitments for capital expenditures at March 31, 2013.

Cash Flow Information

AxoGen had working capital of approximately \$14,523,000 and a current ratio of 11.6 at March 31, 2013, compared to working capital of \$16.8 million and a current ratio of 12.4 at December 31, 2012. The decrease in working capital and the current ratio at March 31, 2013 as compared to December 31, 2012 was primarily due to the use of working capital for operations in excess of revenues. The Company believes it has sufficient cash resources to meet its liquidity requirements for the next 12 months. AxoGen's future capital requirements depend on a number of factors, including, without limitation, revenue increases consistent with its business plan, cost of products and acquisition and/or development of new products pursuant to the PDL transaction.

As a result of AxoGen's continuing capital needs and other factors, it is considering to raise additional funds through public or private equity offerings, debt financings or from other sources. The sale of additional equity may result in dilution to AxoGen's shareholders. There is no assurance that AxoGen will be able to secure funding on terms acceptable to it, or at all. Should additional capital not become available to AxoGen as needed, AxoGen may be required to take certain action, such as, slowing sales and marketing expansion, delaying regulatory approvals or reducing headcount. During the three months ended March 31, 2013, the Company had a net decrease in cash and cash equivalents of approximately \$2,707,000 as compared to a net decrease of cash and cash equivalents of approximately \$2,549,000 in the three months ended March 31, 2012. The Company's principal sources and uses of funds are explained below:

Cash used in operating activities

The Company used approximately \$2,651,000 of cash for operating activities in the three months ended March 31, 2013, as compared to using approximately \$2,478,000 of cash for operating activities in the three months ended March 31, 2012. This increase in cash used in operating activities is primarily attributed to the net loss generated in the three months ended March 31, 2013, along with an increase in our accounts receivable and inventory.

Cash used for investing activities

Investing activities for the three months ended March 31, 2013 used approximately \$57,000 of cash as compared to using approximately \$71,000 of cash in the three months ended March 31, 2012. This increase in use is principally attributable to the purchase of certain fixed and intangible assets.

Cash provided by financing activities

Financing activities in the three months ended March 31, 2013 provided \$1,654 of cash as compared to providing \$0 of cash in the three months ended March 31, 2012. The Company did not incur any debt issuance costs in 2013.

Off-Balance Sheet Arrangements

AxoGen does not have any off-balance sheet arrangements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains “disclosure controls and procedures” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, and Board of Directors, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance of achieving the desired objectives, and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

Our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2013 and concluded that our disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

During the quarter ended March 31, 2013, there were no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – Legal Proceedings

The Company is not a party to any material litigation as of March 31, 2013.

ITEM 1A – RISK FACTORS

The Company faces a number of risks and uncertainties. In addition to the other information in this report and the Company's other filings with the Securities and Exchange Commission, readers should consider carefully the risk factors discussed in Part I "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. There have been no material changes to these risk factors. If any of these risks actually occur, the Company's business, results of operations or financial condition could be materially adversely affected.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5 – OTHER INFORMATION

None.

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ITEM 6 – EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation of AxoGen, Inc. (incorporated by reference to Appendix B to the Proxy Statement/Prospectus included as part of LecTec Corporation's Amendment No. 2 to Registration Statement on Form S-4 filed on August 29, 2011)
3.2	AxoGen, Inc. Amended and Restated Bylaws (incorporated by reference to Appendix C to the Proxy Statement/Prospectus included as part of LecTec Corporation's Amendment No. 2 to Registration Statement on Form S-4 filed on August 29, 2011).
*10.1	Executive Employment Agreement, effective as of February 25, 2013, by and between AxoGen, Inc. and Shawn McCarrey
31.1†	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Principle Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32†	Certification Pursuant to 18 U.S.C. §1350, as Adopted 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 Extension Labels Linkbase.
101.PRE††	XBRL Taxonomy Extension Presentation Linkbase Document.

* Management contract or compensatory plan or arrangement.

† Filed herewith.

†† Furnished herewith.

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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.

Dated April 30, 2013

AXOGEN, INC.

/s/ Karen Zaderej

Karen Zaderej
Chief Executive Officer
(Principal Executive Officer)

/s/ Gregory G. Freitag

Gregory G. Freitag
Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

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* Management contract or compensatory plan or arrangement.

† Filed herewith.

†† Furnished herewith.

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement"), effective as of February 25, 2013, is made by and between AXOGEN CORPORATION, a Delaware corporation ("AXOGEN" or "Employer"), and Shawn McCarrey ("Employee"), whose resident address is 4667 Warrington Drive, Roswell, GA 30075 (collectively, the "Parties").

RECITALS:

A. WHEREAS, AXOGEN believes it is in its best interest to employ Employee, and Employee desires to be employed by AXOGEN; and

B. WHEREAS, AXOGEN and Employee desire to set forth the terms and conditions on which Employee shall be employed by and perform duties on behalf of AXOGEN.

NOW, THEREFORE, in consideration of the promises set forth in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which is acknowledged by this Agreement, the Parties to this Agreement, intending to be legally bound, agree as follows:

1. Employment. AXOGEN hereby employs Employee, and Employee hereby accepts such employment, all upon the terms and conditions set forth in this Agreement, including those set forth in the attached Schedules and Exhibits.

(a) Duties of Employee. The duties of Employee are set forth on Schedule 1 of this Agreement, which is attached hereto and incorporated herein by reference.

(b) Compensation and Benefits. The compensation and benefits to which Employee may be entitled pursuant to this Agreement are set forth on Schedule 2 of this Agreement, which is attached hereto and incorporated herein by reference.

2. Confidentiality Agreement/Non-Disclosure/Non-Competition Agreement. The Parties have entered into, as a condition of Employee's employment, a Confidentiality Agreement/Non-Disclosure with Invention Assignment Agreement (the "Confidentiality/Non-Compete Agreement"), which shall be incorporated herein by reference.

3. Non-Competition Agreement. Employee has agreed as a condition to employment to the non-competition provisions of the Confidentiality/Non-Compete Agreement.

4. Termination.

(a) At-will. Either AXOGEN or Employee may terminate this Agreement at any time during the course of Employee's employment and for any reason, upon giving written notice to the other party. Employer shall have no further liability or obligation to Employee other than to pay for services rendered through Employee's last date of employment. If Employee elects to terminate this Agreement and provides Employer with any notice period prior to the date of termination, Employer may elect to terminate this Agreement immediately thereon and incur no further obligation to Employee other than for wages worked through the date of termination of this Agreement. It is the intention of the Parties that at all times this shall be an at-will employment relationship during the course of Employee's employment with Employer. Nothing contained in this Agreement shall be deemed or construed to create a contractual relationship between the Parties for a specific duration of time.

(b) Death. In the event of the death of the Employee, this Agreement shall terminate on the date of Employee's death, without any liability to or upon the Employer other than to pay for services rendered prior to the date of the Employee's death.

(c) Permanent Disability. For purposes of this Agreement, the term "Permanent Disability" shall mean a physical or mental incapacity of Employee, which renders Employee unable to perform Employee's duties pursuant to this Agreement, and which shall continue for ninety (90) consecutive days or one hundred and eighty (180) days during any twelve month period. If AXOGEN or Employee terminates Employee's employment by reason of Permanent Disability of Employee, this Agreement shall terminate immediately upon written notice by AXOGEN to Employee, or the date Employee gives notice to terminate employment to AXOGEN, without any liability to or upon the Employer other than to pay for services rendered through the termination date.

5. Change in Control.

For the purposes of this Agreement, a "Change in Control" shall mean the occurrence of any of the following events:

(i) any "person" (as that term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), who holds less than twenty percent (20%) of the combined voting power of the securities of AXOGEN or its parent company AxoGen, Inc. ("INC."), becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of AXOGEN or INC. representing fifty percent (50%) or more of the combined voting power of the securities of either AXOGEN or INC. then outstanding; or

(ii) during any period of twenty-four (24) consecutive months, individuals, who, at the beginning of such period constitute all members of the Board of Directors of INC. (the "Board") and cease, for any reason, to constitute at least a majority of the Board, unless the election of each director who was not a director at the beginning of the period was either nominated for election by, or approved by a vote of, at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(iii) AXOGEN or INC. consolidates or merges with another company, and AXOGEN or INC. is not the continuing or surviving corporation, provided, however, that any consolidation or merger whereby INC. continues as the majority holder of AXOGEN securities or a merger or consolidation of AXOGEN and INC. will not constitute a Change in Control; or

(iv) shares of AXOGEN's or INC.'s common stock are converted into cash, securities, or other property, other than by a merger of AXOGEN or INC., pursuant to Section 5(a)(iii), in which the holders of AXOGEN's or INC.'s common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation as immediately after the merger; or

(v) AXOGEN or INC. sells, leases, exchanges, or otherwise transfers all, or substantially all, of its assets (in one transaction or in a series of related transactions), provided, however, that any such transaction related to AXOGEN whereby INC. continues as the majority holder of AXOGEN securities or INC. is the sole other party to the transaction, will not constitute a Change in Control; or

(vi) the holders of AXOGEN's or INC.'s stock approve a plan or proposal for the liquidation or dissolution of AXOGEN or INC.

7. Surrender of Records and all Company Property. Upon the termination of Employee's employment for any reason, whether by AXOGEN or Employee, Employee agrees to return to AXOGEN, in good condition, (i) any and all equipment belonging to AXOGEN including, without limitation, computers, cell phones, and personal digital assistants, and (ii) any and all data, computer files, customer lists and contact information, documents and other materials in Employee's possession, or removed by Employee from AXOGEN's premises, whether now in Employee's possession or not, which materials were obtained in connection with Employee's employment with AXOGEN, including any and all copies (whether complete or partial) and extracts thereof, and (iii) any and all other company property or Confidential Information and materials as they are defined in Employee's Confidentiality/Non-Compete Agreement, in the Employee's control or possession.

8. Miscellaneous Provisions.

(a). Amendments to this Agreement only in Writing. The provisions of this Agreement and the attached Schedules and Exhibits shall only be amended, supplemented, or waived by a written agreement executed by both a duly authorized officer of AXOGEN and Employee.

(b). Assignments. Employee shall not assign Employee's rights and/or obligations pursuant to this Agreement or the attached Schedules and Exhibits. AXOGEN may assign its rights and/or obligations pursuant to this Agreement and the attached Schedules and Exhibits at any time without prior notice to Employee. In the event of a Change of Control in which AXOGEN or INC. is not the surviving entity, any reference to AXOGEN or INC. shall be deemed to refer to the surviving entity.

(c). Binding Effect. All of the terms and provisions of this Agreement and the attached Schedules and Exhibits, whether so expressed or not, shall be binding upon, inure to the benefit of, and be enforceable by the Parties and their respective administrators, executors, legal representatives, heirs, successors and permitted assigns.

(d). The Provisions of this Agreement are Severable. If any part of this Agreement, or any of the Schedules or Exhibits entered into pursuant to this Agreement, is contrary to, prohibited by, or deemed invalid under any applicable law or regulation, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder of this Agreement and its Schedules and Exhibits shall not be so invalidated, and shall be given full force and effect so far as possible.

(e). Survival. Notwithstanding anything to the contrary in this Agreement, the provisions of Sections 1 through 8 shall survive and remain in effect beyond the execution and delivery of this Agreement in accordance with their respective terms of duration.

(f). Waivers. The failure or delay of AXOGEN at any time to require performance by Employee of any provision of this Agreement or the attached Schedules and Exhibits, even if known, shall not affect the right of AXOGEN to require performance of that provision or to exercise any right, power or remedy pursuant to this Agreement or the attached Schedules and Exhibits. Any waiver by AXOGEN of any breach of any provision of this Agreement or the attached Schedules and Exhibits shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself, or a waiver of any right, power or remedy pursuant to this Agreement or the attached Schedules and Exhibits.

(g). Notices. All notices, requests, consents and other communications required or permitted under this Agreement shall be in writing and shall be (i) hand-delivered by messenger or courier service; (ii) sent by an overnight-mail service (e.g. FedEx or UPS); or (iii) mailed (airmail, if international) by registered or certified mail (postage prepaid), return receipt requested, and addressed to:

If to Employee:

Employee's most current address on file with AXOGEN.

If to AXOGEN:

AXOGEN Corporation
13859 Progress Blvd., Ste. 100
Alachua, FL 32615
Attn: CEO

With a copy to:

AXOGEN Corporation
13859 Progress Blvd., Ste. 100
Alachua, FL 32615
Attn: Human Resources

or to such other address as any party may designate by written notice complying with the terms of this section. Each such notice shall be deemed delivered (a) on the date delivered, if by personal delivery, or (b) on the date upon which the return receipt is signed, delivery is refused, or the notice is designated by the postal authorities as not deliverable, as the case may be, if mailed.

(h). Governing Law. This Agreement and the attached Schedules and Exhibits and all transactions contemplated by this Agreement or the attached Schedules and Exhibits shall be governed by, and construed and enforced in accordance with, the internal laws of the State of Florida, without regard to principles of conflicts of laws.

(i). Jurisdiction and Venue. The Parties acknowledge that a substantial portion of negotiations, anticipated performance and execution of this Agreement and the attached Schedules and Exhibits occurred, or shall occur, in Alachua County, Florida, and the Parties irrevocably and unconditionally (a) agree that any suit, action or legal proceeding arising out of, or relating to, this Agreement or the attached Schedules and Exhibits shall be brought in the courts of record of the State of Florida in Alachua County, or the United States District Court, Northern District of Florida, Gainesville Division; (b) consent to the jurisdiction of each such court in any such suit, action or proceeding; (c) waive any objection which they may have to the laying of venue of any such suit, action or proceeding in any of such courts; and (d) agree that service of any court paper may be effected on such party by mail, as provided in this Agreement, or in such other manner as may be provided under applicable laws or court rules in said state.

(j). Remedies Available to Either Party Cumulative. No remedy conferred upon any party pursuant to this Agreement (or the attached Schedules and Exhibits) is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given pursuant to this Agreement (or the attached Schedules and Exhibits) now or hereafter existing at law or in equity or by statute or otherwise. No single or partial exercise by any party of any right, power or remedy pursuant to this Agreement (or the attached Schedules and Exhibits) shall preclude any other or further exercise of such right, power or remedy.

(k). Entire Agreement. This Agreement and the attached Schedules and Exhibits represents the entire understanding and agreement between the Parties with respect to the subject matter contained herein and supersedes all other negotiations, understandings and representations (if any) made by and between the Parties.

(l). Section and Paragraph Headings. Section and paragraph headings used throughout this Agreement and the attached Schedules and Exhibits are for convenience of reference only and in no way define, limit or describe the scope or intent of this Agreement or the attached Schedules and Exhibits.

(m). Preparation of Agreement. This Agreement shall not be construed more strongly against any party regardless of who is responsible for its preparation. The Parties acknowledge that each party contributed to its negotiations and is equally responsible for its preparation.

(n). Section 409A of the Code. Notwithstanding any provision of this Agreement to the contrary, this Agreement is intended to meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") to the extent applicable, the Parties intend to administer this Agreement in a manner that is consistent with those requirements or an exception thereto, and this Agreement shall be construed and interpreted in accordance with such intent. Any payments that are considered deferred compensation under Section 409A of the Code and that are paid to a "specified employee" (as defined in Section 409A of the Code) upon separation from service shall be subject to a six (6) month delay, if required by Section 409A of the Code. If required by Section 409A of the Code, any amounts otherwise payable during the six (6) month period that commences on and follows the Employee's termination date shall be paid in one lump sum amount on the first payroll date following the six (6) month period following the Employee date of termination (or within thirty (30) days of the Employee's death, if earlier). For purposes of Section 409A of the Code, all payments to be made upon a termination of employment under this Agreement may only be made upon a "separation from service" (within the meaning of such term under Section 409A of the Code). Each payment made under this Agreement shall be treated as a separate payment. In no event shall the Employee, directly or indirectly, designate the calendar year of a payment. All reimbursements under this Agreement shall be provided in a manner that complies with Section 409A of the Code, if applicable. If required by regulations or other guidance issued under Section 409A of the Code or a court of competent jurisdiction, the provisions regarding payments hereunder shall be amended to provide for such payments to be made at the time allowed under such regulations, guidance or authority that most closely achieves the intent of this Agreement.

EMPLOYEE AND AXOGEN have executed this Agreement as of the 25th day of February 2013.

AXOGEN Corporation

/s/ Karen Zaderej

Name: Karen Zaderej

Title: CEO

EMPLOYEE:

/s/ Shawn McCarrey

Shawn McCarrey

SCHEDULE LIST

Schedule 1 - Duties of Employee
Schedule 2 - Compensation and Benefits

SCHEDULE 1
DUTIES OF EMPLOYEE

The duties of Employee with AXOGEN Corporation (“AXOGEN” or “Employer”) are as follows:

1. Employee’s Title: AXOGEN hereby employs Employee as a Senior Vice President of Sales, which title may change at AXOGEN’s discretion.

2. Employee’s Duties: During employment with AXOGEN, Employee’s duties will include, without limitation, the following:

(a) Description of Duties. Employee shall perform all duties in connection with Employee’s position, or as otherwise designated by AXOGEN, including, without limitation, the following duties:

Employee shall perform all duties in connection with Employee’s position, or as otherwise designated by AXOGEN, including, without limitation demonstrate creative, insightful ideas and implement them quickly and effectively; work with deadlines; manage and complete projects through commercialization; develop techniques in the clinical sale of concepts and products; effectively manage budget and sales tracking; establish and monitor metrics to demonstrate effectiveness in sales growth and market; create sales targets and meet or exceed such targets; manage the sales team ensuring proper level and use of resources; negotiate and execute contracts with hospitals and IDNs; work closely with the Senior Vice President of Marketing or other designated person to create strategies to communicate effectively with customers and maximize customer retention; hire, develop, train and retain a high performing sales team; develop sales training and sales tools as well as provide field sales support; develop programs that increase qualified leads; work closely with the team to develop and manage channel and partner programs, including identifying strategic alliances that can benefit the growth of the company; assist in molding the strategic direction of the company; and any other activities assigned to Employee by AXOGEN from time to time.

(b) Report to AXOGEN Designated Manager. Employee shall report to the CEO of AXOGEN.

(c) Compliance With Employee Policies and Procedures. Employee shall comply with all AXOGEN policies and procedures for employees as provided to Employee on the hire date and as such policies and procedures may exist from time to time.

(d) No Other Business Activities.

(i) Employee shall devote Employee’s entire professional time, energy and skill to the performance of Employee’s duties pursuant to the Agreement, the service of AXOGEN, and promotion of AXOGEN’s interests. The Parties agree that Employee may not during Employee’s employment, except as permitted in writing by AXOGEN, be engaged in any other business activity, whether or not such activity is pursued for gain, profit, or other pecuniary advantage including, without limitation, management or management consulting activities.

(ii) Notwithstanding the preceding subsection, Employee may invest Employee's personal assets in businesses or real estate that are not in competition with AXOGEN where the form or manner of such investment will not require services on the part of Employee, and in which Employee's participation is solely that of a passive investor.

(e) Compliance with AXOGEN's Rules and Regulations. Employee agrees to abide by all rules and regulations established from time to time by AXOGEN.

SCHEDULE 2
COMPENSATION AND BENEFITS

Subject to the terms and conditions of the Executive Employment Agreement (the "Agreement"), Employee may be entitled to receive from AXOGEN Corporation ("AXOGEN" or "Employer") the following compensation and benefits:

1. Base Salary.

(a) Amount. Employee's salary during employment with AXOGEN will be at the rate of \$200,000 (Two Hundred Thousand Dollars) annually, (the "Base Salary") effective upon execution and delivery of the Agreement and Employee's first day of employment with AXOGEN.

(b) Payment. The Base Salary shall be payable in accordance with the existing payroll practices of AXOGEN, which practices may be changed by AXOGEN from time to time at its sole discretion. The Base Salary shall be subject to all appropriate withholding taxes.

(c) Review of Base Salary. The Base Salary shall be reviewed by AXOGEN on an annual basis; however AXOGEN reserves the right to increase or decrease the Base Salary at any time during the employment relationship in its sole discretion.

(d) Commission.

(i) Calculation. Employee will be paid a commission based upon an agreed upon commission plan determined by AxoGen with a target of 100% of monthly base salary.

(ii) Payment. The Commission, if paid, shall be paid in accordance with, and subject to, the normal payroll policies of AXOGEN with respect to similar forms of compensation, including, without limitation, being subject to all appropriate withholding taxes.

(iii) Termination. Except as otherwise set forth in Paragraph 5 of the Agreement, in the event that Employee's employment is terminated for any reason, either by Employee or AXOGEN, Employee's entitlement to any Commissions set forth in this Section 1(d) shall cease as of the date of termination. Employer shall have no further liability or obligation to Employee with respect to Commissions.

2. Business Expenses and Reimbursements. Employee shall be eligible for reimbursement by AXOGEN in accordance with AXOGEN's normal reimbursement practices for ordinary and necessary business expenses incurred by Employee in the performance of Employee's duties for AXOGEN, so long as Employee timely submits to AXOGEN accurate invoices and receipts of all expenses submitted for reimbursement pursuant to this section.

3. Stock Options. Employee may be eligible to receive stock options in accordance with the terms of the Employee's Incentive Stock Option Agreement.

4. Car Allowance. During the Employee's employment with AXOGEN, Employee will be paid a car allowance in accordance with AXOGEN's then existing car allowance policy, if any. Employee shall timely submit to AXOGEN accurate invoices and receipts of all expenses submitted for reimbursement.

5. Benefits. Employee will be permitted to participate in such benefit plans of AXOGEN that may be in effect from time to time, to the extent Employee is eligible under the terms of those plans. Nothing herein shall be construed to require AXOGEN to institute or continue any particular plan or benefit. AXOGEN reserves the right to add, change, or eliminate any benefits at any time at its sole discretion.

6. Vacations and Holidays. Employee will be entitled to paid vacation and holidays in accordance with the vacation and holiday policies of AXOGEN in effect for its employees from time to time. Vacation must be taken by Employee at such time or times as approved by AXOGEN. Employee is entitled to three (3) weeks of paid vacation per calendar year with the first year prorated based upon the number of days employed.

7. Bonus.

(a) Calculation. In the event that AxoGen's gross revenue from March through December 2013 exceeds the budgeted gross revenue as established by AXOGEN's Board of Directors for such period, Employee will be paid a cash bonus equal to \$40,000 and an additional Incentive Stock Option for the purchase of 17,000 shares granted on, and priced, January 15, 2014, if earned. Bonuses for subsequent years will be agreed to by the parties.

(b) Payment. The Bonus if paid shall be paid in accordance with, and subject to, the normal payroll policies of AXOGEN with respect to similar forms of compensation, including, without limitation, being subject to all appropriate withholding taxes.

8. Compensation Review. AXOGEN shall, from time to time, but no less frequently than annually, review Employee's compensation (including benefits) and may, in its sole discretion, increase, or decrease, or eliminate any or all of the benefits. Any such increase or decrease in the compensation package shall be valid only if in writing, executed by a duly authorized officer of AXOGEN, and such writing shall constitute an amendment to this Paragraph 8 (and to the Agreement and any applicable Schedules or Exhibits) solely as to the benefits, without waiver or modification of any other terms, conditions or provisions of the Agreement.

9. Severance.

(a) Termination. In the event of Employee's termination of employment by AXOGEN without Substantial Cause (as defined below) or within one hundred and eighty (180) days following a Change in Control or by Employee for Good Reason (as defined below), Employee will be entitled to a severance payment consisting of such aggregate amount of compensation, consisting of base salary, commission and bonuses, that he received in the twelve (12) months prior to termination. For purposes of this Agreement, "Substantial Cause" means: (A) the commission by Employee of any act of fraud, theft, or embezzlement; (B) any material breach by Employee of this Agreement, provided that AXOGEN shall have first delivered to Employee written notice of the alleged breach, specifying the exact nature of the breach in detail, and provided, further, that Employee shall have failed to cure or substantially mitigate such breach within ten (10) days after receiving such written notice; (C) commission or conviction of any felony, or of any misdemeanor involving moral turpitude, or entry of a plea of guilty or nolo contendere to any felony or misdemeanor; (D) material failure to

adhere to AXOGEN's corporate codes, policies or procedures which have been adopted in good faith for a valid business purpose as in effect from time to time; or (E) failure to meet reasonable performance standards as determined by AXOGEN, which include, but shall not be limited to, failure to have gross revenue in a calendar quarter exceed 80% of budgeted gross revenue for such quarter. For purposes of this Agreement, "Good Reason" shall mean Employee's resignation from employment upon or within ninety (90) days following a Change of Control, if AXOGEN or INC. is not the surviving entity, provided that Substantial Cause for termination of Employee's employment does not exist at the time of such resignation and the resignation is the result of the occurrence of any one or more of the following:

- i. the assignment to Employee of any duties inconsistent in any respect with his/her position (including status, offices, titles, and reporting requirements), authorities, duties, or other responsibilities as in effect immediately prior to the Change in Control of the Company or any other action of the Company which results in a diminishment in such position, authority, duties, or responsibilities, other than an insubstantial and inadvertent action which is remedied by the Company promptly after receipt of notice thereof given by Employee;
- ii. a reduction by AXOGEN in Employee's base salary as in effect on the date hereof and as the same shall be increased from time to time hereafter; or
- iii. the failure by AXOGEN to (A) continue in effect any material compensation or benefit plan, program, policy or practice in which Employee was participating at the time of the Change in Control of the Company or (B) provide Employee with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each employee benefit plan, program, policy and practice as in effect immediately prior to the Change in Control of the Company (or as in effect following the Change in Control of the Company, if greater).

(b) Payment of Severance. Payment of any severance for Employee will be made in a lump sum on the first payroll date following the 60th day following the date of Employee's termination of employment. Notwithstanding the foregoing, if the Employee is a "specified employee" on Employee's termination date, the postponement provisions of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), as described in Section 8(n) below, shall apply, if applicable.

10. No Other Compensation. Employee agrees that the compensation and benefits set forth in the Agreement and this Schedule 2 are the sole and exclusive compensation and benefits to which Employee is entitled pursuant to the Agreement and this Schedule 2, and that Employee shall have no rights to receive any other compensation or benefits of any nature from AXOGEN.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Karen Zaderej, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AxoGen, 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 officers 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 officers 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: April 30, 2013

/s/ Karen Zaderej
Karen Zaderej
Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Gregory G. Freitag, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AxoGen, 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 officers 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 officers 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: April 30, 2013

/s/ Gregory G. Freitag

Gregory G. Freitag
Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF
2002 (SUBSECTIONS (A) AND (B) OF SECTION 1350, CHAPTER 63 OF TITLE 18,
UNITED STATES CODE)**

In connection with the Quarterly Report on Form 10-Q (the "Report") of AxoGen, Inc. (the "Company"), Karen Zaderej, Chief Executive Officer of the Company and Gregory G. Freitag, Chief Financial Officer of the Company, each certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of her/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.

Dated: April 30, 2013

/s/ Karen Zaderej

Karen Zaderej
Chief Executive Officer
(Principal Executive Officer)

/s/ Gregory G. Freitag

Gregory G. Freitag
Chief Financial Officer
(Principal Financial Officer)