
**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 **June 30, 2014**

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.)

13631 Progress Blvd., Suite 400, 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 August 3, 2014 the registrant had 17,466,091 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, liquidity, 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 except as required by law.

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PART 1 — FINANCIAL INFORMATION

ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AxoGen, Inc.
Condensed Consolidated Balance Sheets

	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,170,332	\$ 20,069,750
Accounts receivable, net of allowance for doubtful accounts of approximately \$61,000 and \$58,000, respectively	2,526,953	1,893,699

Inventory	3,410,442	3,398,438
Prepaid expenses and other	144,975	296,719
Total current assets	20,252,702	25,658,606
Property and equipment, net	597,278	381,689
Intangible assets	578,602	570,396
Deferred financing costs	970,147	1,073,579
	\$ 22,398,729	\$ 27,684,270
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,239,055	\$ 2,083,942
Current Deferred Revenue	14,118	14,118
Total current liabilities	2,253,173	2,098,060
Note Payable — Revenue Interest Purchase Agreement	27,242,589	25,363,695
Long Term Deferred Revenue	78,739	85,882
Total liabilities	29,574,501	27,547,637
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock, \$.01 par value; 50,000,000 shares authorized; 17,466,091 and 17,339,561 shares issued and outstanding	174,661	173,395
Additional paid-in capital	73,036,381	72,369,016
Accumulated deficit	(80,386,814)	(72,405,778)
Total shareholders' equity (deficit)	(7,175,772)	136,633
	\$ 22,398,729	\$ 27,684,270

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues	\$ 4,214,193	\$ 2,862,289	\$ 7,352,449	\$ 5,005,221
Cost of goods sold	887,820	633,293	1,589,121	1,193,536
Gross profit	3,326,373	2,228,996	5,763,328	3,811,685
Costs and expenses:				
Sales and marketing	3,354,912	2,526,388	6,075,619	4,419,929
Research and development	555,758	498,318	1,368,373	905,261
General and administrative	1,713,447	1,398,619	3,608,222	3,004,378
Total costs and expenses	5,624,117	4,423,325	11,052,214	8,329,568
Loss from operations	(2,297,744)	(2,194,329)	(5,288,886)	(4,517,883)
Other income (expense):				
Interest expense	(1,392,098)	(1,223,645)	(2,583,415)	(2,291,266)
Interest expense—deferred financing costs	(52,217)	(41,215)	(103,432)	(85,432)
Other income (expense)	588	1,390	(5,303)	(728)
Total other income (expense)	(1,443,727)	(1,263,470)	(2,692,150)	(2,377,426)
Net Loss	(3,741,471)	(3,457,799)	(7,981,036)	(6,895,309)
Net loss available to shareholders	\$ (3,741,471)	\$ (3,457,799)	\$ (7,981,036)	\$ (6,895,309)
Weighted Average Common Shares outstanding — basic and diluted	17,461,332	11,137,729	17,422,773	11,131,217
Loss Per Common share - basic and diluted	\$ (0.21)	\$ (0.31)	\$ (0.46)	\$ (0.62)

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$ (7,981,036)	\$ (6,895,309)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	67,887	42,813
Amortization of intangible assets	22,099	29,405
Amortization of deferred financing costs	103,432	85,432
Share-based compensation	474,144	392,473
Stock grants	60,125	—
Interest added to note	1,878,894	1,803,439
Change in assets and liabilities:		
Accounts receivable	(633,254)	(365,435)
Inventory	(12,004)	(424,670)
Prepaid expenses and other	151,744	59,930
Accounts payable and accrued expenses	155,113	108,186
Deferred revenue	(7,143)	—
Net cash used for operating activities	(5,719,999)	(5,163,736)
Cash flows from investing activities:		
Purchase of property and equipment	(283,476)	(45,315)
Acquisition of intangible assets	(30,305)	(39,060)
Net cash used for investing activities	(313,781)	(84,375)
Cash flows from financing activities:		
Proceeds from exercise of stock options	134,362	33,393
Net cash provided by financing activities	134,362	33,393
Net decrease in cash and cash equivalents	(5,899,418)	(5,214,718)
Cash and cash equivalents, beginning of year	20,069,750	13,907,401
Cash and cash equivalents, end of period	\$ 14,170,332	\$ 8,692,683
Supplemental disclosures of cash flow activity:		
Cash paid for interest	\$ 664,546	\$ 458,394

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 June 30, 2014 and December 31, 2013 and for the three month and six month periods ended June 30, 2014 and 2013. 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, 2013, which are included in the Annual Report on Form 10-K as of and for the year ended December 31, 2013. 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 medical technology company dedicated to peripheral nerve repair. AxoGen’s portfolio of regenerative medicine products is available in the United States, Canada and several other countries and includes Avance® Nerve Graft, the only off-the-shelf 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 the nerve reconstruction while preventing soft tissue attachments.

Avance® Nerve Graft is processed in the United States by AxoGen. AxoGuard® Nerve Connector and AxoGuard® Nerve Protector are

manufactured in the United States by Cook Biotech Incorporated, and are distributed worldwide exclusively by AxoGen. AxoGen maintains its corporate offices in Alachua, Florida and is the parent of its wholly owned operating subsidiary, AxoGen Corporation.

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 manufactured products and products sold to a customer or under a distribution agreement are recognized when the product is delivered to the customer or distributor, at which time title passes to the customer or distributor, provided, however, that in the case of revenue from consigned sales, delivery is determined when the product is utilized in a surgical procedure. Once a product is delivered, the Company has no further performance obligations. Delivery is defined as delivery to a customer location or segregation of product into a contracted distribution location. At such time, this product cannot be sold to any other customer. Fees charged to customers for shipping are recognized as revenues when products are shipped to the customer, distributor or end user. Revenues from research grants are recognized in the period the associated costs are incurred.

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

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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 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.

We regularly review all accounts that exceed 60 days from the invoice date and based on an assessment of current credit worthiness, estimate the portion, if any, of the balance that will not be collected. The analysis excludes certain government related receivables due to our past successful experience in collectability. Specific accounts that are deemed uncollectible are reserved at 100% of their outstanding balance. The remaining balances outstanding over 60 days have a percentage applied by aging category (5% for balances 61-90 days and 20% for balances over 90 days aged), based on a historical valuation that allows us to calculate the total reserve required. The reserve balance was determined by applying a percentage to the cumulative balance between 60 and 90 days and a higher percentage to the balance over 90 days. In the event that we exhaust all collection efforts and deem an account uncollectible, we would subsequently write off the account. The write off process involves approval by senior management based on the write off amount. The allowance for doubtful accounts reserve balance was approximately \$61,000 and \$58,000 at June 30, 2014 and December 31, 2013, respectively.

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:

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
	<u>(unaudited)</u>	
Finished goods	\$ 2,143,696	\$ 2,131,336
Work in process	240,706	235,966
Raw materials	1,026,040	1,031,136
	<u>\$ 3,410,442</u>	<u>\$ 3,398,438</u>

Inventories were net of reserve of approximately \$347,000 and \$383,000 at June 30, 2014 and December 31, 2013, 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

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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, 2010 through 2013; there currently are no examinations in process.

Fair Value of Financial Instruments

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued expenses. The fair value of the Company's long-term debt approximates its carrying value based upon current rates available to the Company.

Share-Based Compensation

Stock-based compensation cost related to stock options granted under the AC 2002 Stock Option Plan and AxoGen 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 the merger, and based on the Company's common stock for periods subsequent to the merger. 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 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 six months ended June 30:

Six months ended June 30,	2014	2013
	(unaudited)	(unaudited)
Expected term (in years)	4.0	4.0
Expected volatility	79.80%	84.10%
Risk free rate	1.20%	0.60%
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 six months ended June 30, 2014 and 2013 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

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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

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The core principle of the ASU is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange

for those goods or services. The ASU may also result in enhanced disclosures about revenue. For public entities, the ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Due to the recent date of issuance for this ASU, management is currently evaluating what impact, if any, the pronouncement will have on the Company's disclosures, its financial position or results from operations.

4. Property and Equipment

Property and equipment consist of the following:

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
	(unaudited)	
Furniture and equipment	\$ 945,942	\$ 893,973
Leasehold improvements	106,046	53,864
Processing equipment	1,194,713	1,015,388
Less: accumulated depreciation and amortization	(1,649,423)	(1,581,536)
Property and equipment	<u>\$ 597,278</u>	<u>\$ 381,689</u>

5. Intangible Assets

The Company's intangible assets consist of the following:

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
	(unaudited)	
License agreements	\$ 830,122	\$ 816,300
Patents	79,036	62,553
Less: accumulated amortization	(330,556)	(308,457)
Intangible assets, net	<u>\$ 578,602</u>	<u>\$ 570,396</u>

License agreements are being amortized over periods ranging from 17-20 years. Patent costs were being amortized over three years. As of December 31, 2013, the patents were fully amortized, the remaining patents of \$79,036 were pending patent costs and were not amortizable. Amortization expense was approximately \$11,000 and \$15,000 for the three months and was approximately \$22,000 and \$29,000 for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, future amortization of license agreements is expected to be approximately \$26,000 for the remainder of 2014 and \$48,000 for 2015 through 2018.

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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 sub-licensee 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 approximately \$85,000 and \$58,000 for the three months and were \$145,000 and \$105,000 for the six months ended

June 30, 2014 and 2013, and are included in sales and marketing expense on the accompanying condensed consolidated statements of operations.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses includes \$205,165 and \$203,380 for accrued payroll at June 30, 2014 and December 31, 2013, respectively, \$415,763 and \$417,825 for accrued commissions at June 30, 2014 and December 31, 2013, respectively and \$231,691 and \$31,176 for accrued bonuses at June 30, 2014 and December 31, 2013, respectively.

7. Notes Payable

Notes Payable consists of the following:

	June 30, 2014 (unaudited)	December 31, 2013
Revenue Interest Purchase Agreement with PDL BioPharma, Inc. ("PDL") for aggregate of \$20,800,000 with amounts payable monthly at 9.95% of Net Revenues through September 2014; and the greater of (i) 9.95% of product revenue or (ii) specific quarterly amounts varying from approximately \$1.3 million to \$2.5 million per quarter through September 2020. The minimum annual payment amounts are as follows: 2014 - \$1,250,805, 2015 - \$6,781,440, 2016 - \$9,232,642, 2017 and 2018 - \$9,000,000, 2019 - \$9,063,000 and 2020 - \$6,939,000.	<u>\$ 27,242,589</u>	<u>\$ 25,363,695</u>
Long-term Notes Payable	<u>\$ 27,242,589</u>	<u>\$ 25,363,695</u>

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Note 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 royalties equal to 9.95% of 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. Proceeds from the PDL transaction were used to fully repay the MidCap Loan, as defined below, and extinguish AxoGen's long-term debt obligations there under. The Royalty Contract has a term of eight years. Under the Royalty Contract, PDL is to receive royalty payments based on a royalty rate of 9.95% of the Company's Net Revenues, subject to certain agreed upon minimum payment requirements, currently anticipated to be operative, 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 of 20%. 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, our transfer of revenue interest or substantially all of our interest in the products 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 of 20% 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 of thirty-two and one half percent (32.5%) 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”). The PDL designee was elected at the Company’s 2013 Annual Meeting of Shareholders. At each

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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 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 certain 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 the 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.

8. Stock Options

The Company granted 454,000 options to purchase shares of stock pursuant to its 2010 Stock Incentive Plan for the six months ended June 30, 2014. Stock-based compensation expense was \$216,602 and \$132,561 for the three months ended June 30, 2014 and 2013, respectively and \$474,144 and \$392,473 for the six months ended June 30, 2014 and 2013, respectively. Total future stock compensation expense related to nonvested awards is expected to be approximately \$1,701,000 at June 30, 2014.

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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

The Company is a leading medical technology company dedicated to peripheral nerve repair. AxoGen’s portfolio of regenerative medicine products is available in the United States, Canada and several other countries and includes Avance® Nerve Graft, the only off-the-shelf commercially available processed nerve allograft for bridging severed nerves without the comorbidities associated with a second surgical site, AxoGuard® Nerve Connector, a 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 the nerve reconstruction 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 second quarter 2014 compared to 2013 primarily as a result of sales to new accounts and increased product usage by existing accounts. AxoGen has continued to broaden and strengthen its sales and marketing activity with a focus on the execution of its sales operations. This is expected to have a continued positive contribution to its revenue growth in the long term.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2014 and 2013

Revenues

Revenues for the three months ended June 30, 2014 increased 47.2% to approximately \$4,214,000 as compared to approximately \$2,862,000 for the three months ended June 30, 2013. Additionally, revenues for the six months ended June 30, 2014 increased 46.9% to approximately \$7,352,000 as compared to approximately \$5,005,000 for the six months ended June 30, 2013. This increase was primarily a result of sales to new accounts and increased product usage by existing accounts. In addition, AxoGen recognized approximately \$57,000 of grant revenue and \$119,000 of grant revenue for the three and six months ended June 30, 2014, respectively as compared to no such revenue in the corresponding time period in 2013.

Gross Profit

Gross profit for the three months ended June 30, 2014 increased 49.2% to approximately \$3,326,000 as compared to approximately \$2,229,000 for the three months ended June 30, 2013. Such increase in aggregate dollars was primarily attributable to the increased revenues in the second quarter of 2014, with additional contributions by the factors also affecting gross margin. Gross margin improved to 78.9% for the three months ended June 30, 2014 as compared to 77.9% for the same period in 2013 as a result of price increases in March 2014 and changes in product mix.

Gross profit for the six months ended June 30, 2014 increased 51.2% to approximately \$5,763,000 as compared to approximately \$3,812,000 for the six months ended June 30, 2013. Such increase in aggregate dollars was primarily attributable to the increased revenues in the first six months of 2014, with additional contributions by the factors also affecting gross margin. Gross margin improved to 78.4% for the six months ended June 30, 2014 as compared to 76.2% for the same period in 2013 as a result of price increases in March 2014 and changes in product mix.

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Costs and Expenses

Total cost and expenses increased 27.2% to approximately \$5,624,000 for the three months ended June 30, 2014 as compared to approximately \$4,423,000 for the three months ended June 30, 2013. These increases were primarily due to increasing sales and marketing activities, increases in compensation as AxoGen hired additional personnel to meet its current and expected growth and costs associated with clinical activities.

Total cost and expenses increased 32.7% to approximately \$11,052,000 for the six months ended June 30, 2014 as compared to approximately \$8,330,000 for the six months ended June 30, 2013. These increases were primarily due to increasing sales and marketing activities and increases in compensation 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 listed on NASDAQ, facility costs and research and development costs associated with the Company's preparation for its clinical trial.

Sales and marketing expenses increased 32.8% to approximately \$3,355,000 for the three months ended June 30, 2014 as compared to approximately \$2,526,000 for the three months ended June 30, 2013. This increase was primarily due to expansion of the direct sales force, increased support for both AxoGen's direct sales force and independent distributors, sales training and surgeon education. As a percentage of revenues, sales and marketing expenses were 79.6% for the three months ended June 30, 2014 compared to 88.3% for the three months ended June 30, 2013. Such lower sales and marketing expenses as a percentage of revenue were a result of the revenue increase outpacing increases in costs and expenses.

Sales and marketing expenses increased 37.5% to approximately \$6,076,000 for the six months ended June 30, 2014 as compared to approximately \$4,420,000 for the six months ended June 30, 2013. This increase was primarily due to expansion of the direct sales force, increased support for both AxoGen's direct sales force and independent distributors, sales training and surgeon education. As a percentage of revenues, sales and marketing expenses were 82.6% for the six months ended June 30, 2014 compared to 88.3% for the six months ended June 30, 2013. Such lower sales and marketing expenses as a percentage of revenue were a result of the revenue increase outpacing increases in costs and expenses.

General and administrative expenses increased 22.4% to approximately \$1,713,000 for the three months ended June 30, 2014 as compared to approximately \$1,399,000 for the three months ended June 30, 2013. The increase was primarily a result of increased compensation, public company related expenditures and increased rent and utilities for the Company's new corporate headquarters and distribution facility, partially offset by a reduction in consulting services, legal services and travel expenses. As a percentage of revenues, general and administrative expenses were 40.7% for the three months ended June 30, 2014 as compared to 48.9% for the three months ended June 30,

2013. Such lower general and administrative expenses as a percentage of revenue were a result of the revenue increase outpacing increases in costs and expenses.

General and administrative expenses increased 20.1% to approximately \$3,608,000 for the six months ended June 30, 2014 as compared to approximately \$3,004,000 for the six months ended June 30, 2013. The increase was primarily a result of increased compensation, public company related expenditures and increased rent and utilities for the Company's new corporate headquarters and distribution facility, partially offset by a reduction in consulting services, legal services and travel expenses. As a percentage of revenues, general and administrative expenses were 49.1% for the six months ended June 30, 2014 as compared to 60.0% for the six months ended June 30, 2013. Such lower general and administrative expenses as a percentage of revenue were a result of the revenue increase outpacing increases in costs and expenses.

Research and development expenses increased approximately 11.6% to approximately \$556,000 in the three months ended June 30, 2014 as compared to approximately \$498,000 for the three months ended June 30, 2013. Research and development expenses increased approximately 51.2% to approximately \$1,368,000 in the six months ended June 30, 2014 as compared to approximately \$905,000 for the six months ended June 30, 2013. Development includes AxoGen's product development and clinical efforts substantially focused on its biological license application ("BLA") for the Avance® Nerve Graft. A substantial portion of the increase in research and development expenses from 2013 to 2014 is related to expenditures for such clinical activity. Although AxoGen's products are developed for sale in their current use, it does conduct limited research and

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product development focused on new products and new applications to existing products. AxoGen has become more active in pursuing research grants to support this research. AxoGen's product pipeline development also contributed to a portion of the research and development expense increase in 2014, with grant revenue partially offsetting a portion of this activity.

Other Income and Expenses

Interest expense increased 13.7% to approximately \$1,392,000 for the three months ended June 30, 2014 as compared to approximately \$1,224,000 for the three months ended June 30, 2013. Interest expense increased 12.7% to approximately \$2,583,000 for the six months ended June 30, 2014 as compared to approximately \$2,291,000 for the six months ended June 30, 2013. This increase was due to the increase in the interest related to the Royalty Contract from higher revenues and the interest accrued related to PDL. As a result of the accounting treatment for the PDL transaction, interest expense included approximately \$1,031,000 and \$938,000 for the three months ended June 30, 2014 and 2013, respectively, and approximately \$1,917,000 and \$1,833,000 for the six months ended June 30, 2014 and 2013, respectively, 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 \$1,917,000 and \$1,833,000 non-cash expense, the remaining \$665,000 and \$458,000 in interest expense for the six months ended June 30, 2014 and 2013, respectively, is related to cash paid for interest on the note payable.

Interest expense—deferred financing costs increased 26.8% to approximately \$52,000 for the three months ended June 30, 2014 as compared to approximately \$41,000 for the three months ended June 30, 2013. Interest expense—deferred financing costs increased 21.2% to approximately \$103,000 for the six months ended June 30, 2014 as compared to approximately \$85,000 for the six months ended June 30, 2013. This increase is primarily due to higher deferred financing cost amortization associated with the PDL agreement from applying the effective interest rate method.

Income Taxes

The Company had no income tax expenses or income tax benefit for each of the three months and six months ended June 30, 2014 and 2013 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. Pursuant to the Royalty Contract 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 royalty rate of 9.95% 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.

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Cash Flow Information

AxoGen had working capital of approximately \$18.00 million and a current ratio of 8.99 at June 30, 2014, compared to working capital of \$23.56 million and a current ratio of 12.23 at December 31, 2013. The decrease in working capital and the current ratio at June 30, 2014 as compared to December 31, 2013 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 at least 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.

AxoGen's future capital requirements depend on a number of factors, including, without limitation, revenue increases consistent with its business plan, and the corresponding escalating royalty payments of approximately \$1.3 to \$2.5 million per quarter, starting in October 2014, due to PDL and pursuant to AxoGen's licensing agreements in connection with Avance[®] Nerve Graft, cost of products and acquisition and/or development of new products. In particular, if revenue does not increase by fourth quarter 2014 to a level whereby the 9.95% royalty owed to PDL on AxoGen's gross revenues exceeds the PDL minimum royalty payments at such time of approximately \$1.3 million, and such differential continues, or grows larger as the PDL minimum royalty payments increase, AxoGen would face increasing capital needs. Such capital needs could be substantial depending on the extent to which AxoGen is unable to increase revenue.

If AxoGen needs additional capital in the future, it may raise additional funds through public or private equity offerings, debt financings or from other sources. The sale of additional equity would 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. The increasing need for capital as the PDL transaction matures could also make it more difficult to obtain funding through either equity or debt. 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 six months ended June 30, 2014, the Company had a net decrease in cash and cash equivalents of approximately \$5,899,000 as compared to a net decrease of cash and cash equivalents of approximately \$5,215,000 in the six months ended June 30, 2013. The Company's principal sources and uses of funds are explained below:

Cash used in operating activities

The Company used approximately \$5,720,000 of cash for operating activities in the six months ended June 30, 2014, as compared to using approximately \$5,164,000 of cash for operating activities in the six months ended June 30, 2013. This increase in cash used in operating activities is primarily attributed to the net loss generated in the six months ended June 30, 2014, along with an increase in our accounts receivable associated with increased revenues.

Cash used for investing activities

Investing activities for the six months ended June 30, 2014 used approximately \$314,000 of cash as compared to using approximately \$84,000 of cash in the six months ended June 30, 2013. This increase in use is principally attributable to the purchase of certain fixed assets for the expansion of the headquarters office and the opening of the worldwide distribution facility in Burleson, Texas.

Cash provided by financing activities

Financing activities in the six months ended June 30, 2014 provided approximately \$134,000 of cash as compared to providing approximately \$33,000 of cash in the six months ended June 30, 2013. The increase was due to proceeds received from the exercise of stock options.

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 June 30, 2014 and concluded that our disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

During the six months ended June 30, 2014, 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.

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UNITED STATES PART II — OTHER INFORMATION

ITEM 1 — Legal Proceedings

The Company is not a party to any material litigation as of June 30, 2014.

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 as of and for the year ended December 31, 2013. 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

Exhibit Number	Description
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).

10.16.1†	Amendment to Executive Employment Agreement, effective as of May 11, 2014, by and between AxoGen, Inc. and Greg Freitag.
10.21†	Executive Employment Agreement, dated May 12, 2014, between Lee R. Johnston, Jr. and AxoGen Corporation, a wholly owned subsidiary of AxoGen, Inc.
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.

† 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.

AXOGEN, INC.

Dated August 4, 2014

/s/ Karen Zaderej

 Karen Zaderej
 Chief Executive Officer
 (Principal Executive Officer)

/s/ Lee R. Johnston, Jr.

 Lee R. Johnston, Jr.
 Chief Financial Officer
 (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

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101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document.

† Filed herewith.

†† Furnished herewith.

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

This Amendment No. 1 to Employment Agreement (this "Amendment") is entered into as of May 11, 2014 by and between Greg Freitag ("Freitag") and AXOGEN, INC. ("AxoGen").

WHEREAS, Freitag and AxoGen entered into that certain Employment Agreement dated October 1, 2011 (the "Agreement") for the employment of Freitag; and

WHEREAS, Freitag will transition his duties as AxoGen CFO, continue his duties as General Counsel and assume the duties of Executive VP of Business Development; and

WHEREAS, Freitag and AxoGen desire to amend the Agreement upon the terms and conditions hereinafter provided;

NOW, THEREFORE, in consideration of the foregoing and for other consideration, the receipt and sufficiency of which are hereby acknowledged, Freitag and AxoGen agree that the Agreement is hereby amended as follows:

1. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.
 2. Schedule 1, Section 1 is replaced as follows: AXOGEN hereby employs Employee as a General Counsel and Senior Vice President of Business Development, which title may change at AXOGEN's discretion.
 3. Schedule 1, Section 2. (d) is replaced as follows: In addition to the Base Salary, Employee may also be eligible to receive stock options, benefits and holidays during Employee's Employment, provided, however, the Employee will not be eligible to receive paid vacation time or life and disability insurance.
 4. Schedule 1, Section 2. (a) is replaced as follows: Employee shall perform all duties in connection with Employee's position, or as otherwise designated by AXOGEN, including, without limitation, the following duties: Provide support to AXOGEN and Corp. as to legal matters and business development activity, assist on all strategic and tactical matters as they relate to forecasting, financial structure, corporate development, investor/public relations and the securing of additional funding.
 5. Schedule 1, Section 2. (d) (1) is replaced as follows: Employee shall devote the time, energy and skill required for the performance of Employee's duties pursuant to the Agreement, and as required by the CEO for 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 competitive with AXOGEN or which requires a time commitment that interferes with the duties of Employee.
 6. Schedule 1, Section 5 is removed in its entirety.
-

7. As amended hereby, the Agreement is hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties hereunto have executed this Amendment as of the date first written above.

FREITAG:

By: /s/Gregory Freitag
Gregory Freitag

AXOGEN:

AXOGEN, INC

By: /s/Karen Zaderej
Name: Karen Zaderej
Title: CEO

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement"), effective as of May 12, 2014, is made by and between AXOGEN CORPORATION, a Delaware corporation ("AXOGEN" or "Employer"), and LEE ROBERT JOHNSTON, JR. ("Employee"), whose resident address is 149 NW 166th Terrace, Newberry, Florida 32669 (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. Invention Assignment and Confidentiality Agreement. Contemporaneously with the execution and delivery of this Agreement, Employee shall enter into an Invention Assignment and Confidentiality Agreement attached hereto as Exhibit "A" to this Agreement (the "Invention and Confidentiality Agreement"), which shall be incorporated herein by reference.
3. Non-Competition Agreement. Contemporaneously with the execution and delivery of this Agreement, Employee shall enter into a Non-Solicitation and Non-Competition Agreement attached hereto as Exhibit "B" to this Agreement (the "NSNC Agreement") which shall be incorporated herein by reference.
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.

- (a) Definition. 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.,

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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.

(b) Severance.

(i) Termination in Connection with a Change of Control. In the event of Employee's termination of employment by AXOGEN without Substantial Cause (as defined below) upon 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 twelve (12) months of Employee's base salary, an amount equal to any bonuses paid to Employee during the twelve (12) month period prior to Employee's termination of employment. 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 perform substantially the material duties of Employee's management position in a competent manner (after notice and opportunity to cure within fifteen days, except in cases where cure would necessarily take longer than fifteen days, in which case, all possible steps toward effecting such cure must be taken by executive within the fifteen day period and completion of such cure diligently completed within no more than 60 days). 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:

a) 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

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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;

b) 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;

c) 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; or

d) Employee is required to perform a substantial portion of his duties at a facility which is more than 50 miles from the facility for which Employee performed a substantial portion of his duties immediately prior to the Change of Control.

(ii) Termination not in Connection with a Change of Control. In the event of Employee's termination of employment by AXOGEN without Substantial Cause prior to a Change of Control, Employee shall be entitled to a severance payment consisting of (A) twelve (12) months of Employee's base salary; and (B) an amount equal to any bonuses paid to Employee during the twelve (12) month period prior to Employee's termination of employment.

(c) 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.

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 Invention Assignment and Confidentiality Agreement, in the Employee's control or possession.

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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:

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If to Employee:

Employee's most current address on file with AXOGEN.

If to AXOGEN:

AXOGEN Corporation
13631 Progress Blvd., Ste. 400
Alachua, FL 32615
Attn: CEO

With a copy to:

AXOGEN Corporation
13631 Progress Blvd., Ste. 400
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

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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.

(o) Liability Insurance. AXOGEN shall cover the Employee under directors and officers liability insurance both during the term of this Agreement and for the one year period following the termination of this Agreement, in the same amount and to the same extent as AXOGEN covers its officers and directors.

[Signature Page Follows]

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EMPLOYEE AND AXOGEN have executed this Agreement as of the 12th day of May 2014.

AXOGEN Corporation

/s/ Karen Zaderej

Name: Karen Zaderej

Title: CEO

EMPLOYEE:

/s/ Robert Johnston, Jr.

Name :Lee Robert Johnston, Jr.

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SCHEDULE AND EXHIBIT LIST

- Schedule 1 - Duties of Employee
- Schedule 2 - Compensation and Benefits
- Exhibit A - Invention Assignment and Confidentiality Agreement
- Exhibit B - Non-Solicitation and Non-Competition Agreement

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**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 Chief Financial Officer, 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:

Provide both operational and programmatic support to AXOGEN and INC. Supervise the finance unit and act as chief financial spokesperson for AXOGEN and INC. Directly assist on all strategic and tactical matters as they relate to budget management, cost benefit analysis, forecasting needs, financial statements and the securing of new funding or restructuring of current financing facilities. As a member of the senior management team, be involved in strategic planning, evaluation, and professional development initiatives.

(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 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 \$275,000 (Two Hundred SeventyFive 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) Additional Compensation. In addition to the Base Salary, Employee may also be eligible to receive stock options, benefits, paid sick, personal & vacation ("SPV") and paid holidays during Employee's Employment. In this regard:

(i) EMPLOYEE will be eligible for a cash bonus in fiscal year 2014 pursuant to the terms of the executive bonus plan implemented by the Compensation Committee of INC. In this regard, EMPLOYEE's target rate will be set at 40% of EMPLOYEE's base salary paid in 2014.

(ii) Employee will be entitled to 3 weeks SPV prorated for the first year of employment and 3 weeks per year thereafter.

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. 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.

4. 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.

5. Bonus.

(a) Calculation. During the Employment Period, Employee may receive a bonus based on an AXOGEN bonus plan, as determined by AXOGEN in its sole discretion.

(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.

6. 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 6 (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.

7. 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.

EXHIBIT A OF EMPLOYMENT AGREEMENT
INVENTION ASSIGNMENT AND CONFIDENTIALITY AGREEMENT

THIS INVENTION ASSIGNMENT AND CONFIDENTIALITY AGREEMENT (the "Invention and Confidentiality Agreement") is entered into as of the date first written below, by and between AXOGEN Corporation ("AXOGEN" or "Employer") and the undersigned AXOGEN employee, ("Employee") for and in consideration of Employee's continued employment by AXOGEN and the compensation that Employee shall receive during Employee's employment, the Parties agree as follows:

1. Employee's Covenants, Representations and Warranties. Both during and after the termination of Employee's employment by AXOGEN for any reason or for no reason:
 - A. Non-Disclosure. Employee shall not disclose to anyone outside AXOGEN any Confidential Information. "Confidential Information" shall include, without limitation,
 - (i) all information, which has not been made publicly available by AXOGEN or the third-party owner of such information, which was developed by AXOGEN, any of AXOGEN's employees or independent contractors, or was developed for AXOGEN, including but not limited to Developments (as defined below in Section 3), technical data, specifications, designs, programs, software, hardware, concepts, discoveries, copyrights, improvements, product plans, research and development, , personnel information, contents of manuals, financial information, customer lists, leads, marketing programs, testing programs, and/or other written materials;
 - (ii) all documents marked as confidential and/or containing such information; and/or
 - (iii) all information AXOGEN has acquired or received from a third party in confidence.
 - B. Use of Confidential Information. Employee shall use Confidential Information only for AXOGEN's business purposes.
 - C. Confidential Information and Materials Furnished by AXOGEN. Employee agrees that the Confidential Information and any other materials furnished by AXOGEN to Employee, (i) are proprietary to AXOGEN and contain specialized and unique information not obtainable from ordinary sources, (ii) have been created by AXOGEN at considerable time and expense, and (iii) shall remain, at all times, the exclusive and sole property of AXOGEN.
 - D. Use of Third-Party Information. Employee shall not disclose to AXOGEN, use in AXOGEN's business, or cause AXOGEN to use any information or material which is confidential to any third party unless AXOGEN has a written agreement with the third party allowing AXOGEN to receive and use the confidential information or materials.
 - E. Use of Copyrights. Employee will not incorporate into Employee's work any material that is subject to the copyrights of any third party unless AXOGEN has the right to copy and incorporate such copyrighted material.
 - F. Trade Secrets. Employee acknowledges AXOGEN's legitimate business interest in protecting its trade secrets and customer lists and in preventing direct solicitation of

its customers and agrees that any unauthorized use of trade secrets shall be presumed to be an irreparable injury that may be specifically enjoined.

2. Return of Confidential Information and Materials. Employee shall, immediately upon AXOGEN's request, or the termination of Employee's employment, for any reason, whether by Employee or AXOGEN, return to AXOGEN all Confidential Information and other materials furnished to Employee, and any and all third-party property, and/or copies of the same, and all documentation, notebooks and notes, reports and any other materials whether electronic or print media containing or derived from the Confidential Information and other materials furnished to Employee by AXOGEN.
3. Assignment of Rights. Employee hereby grants, transfers and assigns and agrees to grant, transfer and assign to AXOGEN all of Employee's rights, title and interest, if any, in any and all Developments, including rights to translation and reproductions in all forms or formats and the copyrights, patent rights and moral rights to the same, if any, and agrees that AXOGEN may further perfect AXOGEN's United States and foreign rights in, and to any and all, Developments under patents and copyrights. "Developments" shall mean any idea, invention, process, design, concept, or useful article (whether the design is ornamental or otherwise), computer program, trademark, trade secret, documentation, literary work, audiovisual work and any other work of authorship, hereafter expressed, made or conceived solely or jointly by Employee during Employee's employment, whether or not subject to patent, copyright or other forms of protection that is:
 - A. related to the actual or anticipated business, research or development of AXOGEN; and/or
 - B. suggested by or resulting from any task assigned to Employee or work performed by Employee for or on behalf of AXOGEN.
4. Copyrights. Employee acknowledges that the copyrights in Developments created by Employee in the scope of Employee's employment belong to AXOGEN by operation of law, or may belong to a party engaged by AXOGEN by operation of law pursuant to a works-for-hire contract between AXOGEN and such contracted third party. To the extent the copyrights in such works may not be owned by AXOGEN or such contracted party by operation of law, Employee hereby assigns and agrees to assign to AXOGEN or such contracted party, as the case may be, all copyrights (if any) Employee may have in Developments.

5. Assistance in Obtaining Copyrights and Patents. At all times after the date of this Invention Assignment and Confidentiality Agreement, Employee agrees to assist AXOGEN in obtaining patents or copyrights on any Developments assigned to AXOGEN that AXOGEN, in its sole discretion, seeks to patent or copyright. Employee also agrees to sign all documents, and do all things necessary to obtain such patents or copyrights, to further assign them to AXOGEN, and to reasonably protect them and AXOGEN against infringement by other parties at AXOGEN expense with AXOGEN prior approval.

6. Appointment of Attorney-In-Fact. Employee irrevocably appoints any AXOGEN-selected designee to act, at all times hereafter, as Employee's agent and attorney-in-fact to perform all acts necessary to obtain patents and/or copyrights as required by this Invention Assignment and Confidentiality Agreement if Employee (i) refuses to perform those acts or (ii) is unavailable, within the meaning of the United States Patent and Copyright laws. It is

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expressly intended by Employee that the foregoing power of attorney is coupled with an interest.

7. Record Keeping. Employee shall keep complete, accurate, and authentic information and records of all Developments in the manner and form reasonably requested by AXOGEN. Such information and records, and all copies of the same, shall be the property of AXOGEN as to any Developments assigned AXOGEN. Employee agrees to promptly surrender such information and records at the request of AXOGEN as to any Developments.

8. Developments. In connection with any of the Developments assigned by this Invention Assignment and Confidentiality Agreement, Employee hereby agrees:

A. to disclose them promptly to AXOGEN;

B. at AXOGEN's request, to execute separate written assignments to AXOGEN;

C. to provide AXOGEN with notice of any inadvertent disclosure of Confidential Information related to any Development;
and

D. to do all things reasonably necessary to enable AXOGEN to secure patents, register copyrights or obtain any other form of protection for Developments in the United States and in other countries. If Employee fails or is unable to do so, Employee hereby authorizes AXOGEN to act under power of attorney for Employee to do all things to secure such rights.

9. No Designation as Author. AXOGEN, its subsidiaries, licensees, successors or assigns, (direct or indirect) is not required to designate Employee as author of any Developments when such Developments are distributed publicly or otherwise. Employee waives and releases, to the extent permitted by law, all Employee's rights to such designation and any rights concerning future modifications of such Developments.

10. Assignability. Rights, assignments, and representations made or granted by Employee in this Invention Assignment and Confidentiality Agreement are assignable by AXOGEN without notice, and are for the benefit of AXOGEN's successors, assigns, and parties contracting with AXOGEN.

11. Trade Secrets. Employee acknowledges that Employee is aware that a theft of trade secrets of an employer by an employee in Florida, such as is prohibited by this Invention Assignment and Confidentiality Agreement, constitutes a criminal violation of Florida Statute 812.081, punishable as a third-degree felony under Florida Statute 775.082, conviction for which carries a term of imprisonment not exceeding five (5) years. Employee acknowledges AXOGEN will seek vigorous prosecution under Florida Statutes for any violation thereof arising out of a breach by Employee of any of the material terms of this Invention Assignment and Confidentiality Agreement.

12. Advice of Counsel. Employee acknowledges and agrees that Employee has read and understands the terms set forth in this Invention Assignment and Confidentiality Agreement and has been given a reasonable opportunity to consult with an attorney prior to execution of this Invention Assignment and Confidentiality Agreement and has either done so, or knowingly declined to do so.

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13. Miscellaneous Provisions.

A. Further Assurances. The Parties hereby agree from time to time to execute and deliver such further and other transfers, assignments and documents and do all matters and things that may be convenient or necessary to more effectively and completely carry out the intentions of this Invention Assignment and Confidentiality Agreement.

B. Survival. All covenants, agreements, representations and warranties made in this Invention Assignment and Confidentiality Agreement or otherwise made in writing by any party pursuant to this Invention Assignment and Confidentiality Agreement shall survive the execution and delivery of this Invention Assignment and Confidentiality Agreement and the termination of employment of Employee.

C. Injunctive Relief. Employee acknowledges that AXOGEN will be irreparably damaged (and damages at law would be an

inadequate remedy) if this Invention Assignment and Confidentiality Agreement is not specifically enforced. Therefore, in the event of a breach or threatened breach by Employee of any provision of this Invention Assignment and Confidentiality Agreement, AXOGEN shall be entitled, in addition to all other rights or remedies, to injunctions restraining such breach or threatened breach, without being required to show any actual damage or to post any bond or other security.

THE PARTIES TO THIS AGREEMENT have executed this Invention Assignment and Confidentiality Agreement as of the 12th day of May, 2014.

AXOGEN Corporation

/s/ Karen Zaderej
Name: Karen Zaderej
Title: CEO

EMPLOYEE

/s/ Robert Johnston, Jr.
Print Name: Robert Johnston, Jr.

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EXHIBIT B TO EMPLOYMENT AGREEMENT
NON-SOLICITATION AND NON-COMPETITION AGREEMENT

THIS NON-SOLICITATION AND NON-COMPETITION AGREEMENT (the "NSNC Agreement") is entered into as of the date written below by and between AXOGEN Corporation ("AXOGEN" or "Employer") and the undersigned AXOGEN employee ("Employee").

RECITALS:

- A. WHEREAS, Employee has agreed to accept employment with AXOGEN; and
- B. WHEREAS, the Parties desire to reflect their agreement as to Employee's promises regarding Employee's solicitation and competition, which have induced AXOGEN to employ Employee.

NOW, THEREFORE, in consideration of Employee's employment with AXOGEN and the covenants set forth in this Agreement and other good and valuable consideration, the Parties, intending to be legally bound by this Agreement, agree as follows:

1. Non-solicitation. Employee shall not, at any time while employed by AXOGEN and for one (1) year after the termination of Employee's employment with AXOGEN for any reason whatsoever, or for no reason, directly or indirectly (by assisting or suggesting to another, or otherwise) solicit, otherwise attempt to induce or accept the initiative of another in such regard, alone or by combining or conspiring with any employees, officers, directors, agents, consultants, representatives, contractors, suppliers, distributors, customers or other business contacts of AXOGEN to terminate or modify its position as an employee, officer, director, agent, consultant, representative, contractor, supplier, distributor, customer or business contact with AXOGEN or to compete against AXOGEN.
2. Non-competition. Employee shall not, at any time while employed by AXOGEN and for one (1) years after such termination of Employee's employment for any reason whatsoever, or for no reason (the "No-Compete Period"), directly or indirectly, as owner, officer, director, employee, agent, lender, broker, investor, consultant or representative of any corporation or as owner of any interest in, or as an employee, agent, consultant, partner, independent contractor, affiliate or in any other capacity whatsoever, or representative of any other form of business association, sole proprietorship or partnership, conduct or assist in any way any business that relates to the regeneration of nerves or the treatment of neurological injuries and defects, or any business that competes directly with AxoGen's then-current or planned products or business.
3. Non-Interference. In addition to, and not in limitation of, the other provisions of this Agreement, or of any other agreement between Employee and AXOGEN, Employee shall not at any time, in any manner, interfere with, disturb, disrupt, decrease or otherwise jeopardize the business of AXOGEN, or give to any person the benefit or advantage of AXOGEN's or Corp.'s methods of operation, advertising, publicity, training, business customers or accounts, or any other information relating or useful to AXOGEN's or Corp.'s business.
4. Representations and Warranties. Employee does hereby represent and warrant to the Employer that:

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- (i) Employee is not presently employed by, and/or have any ownership interest, either directly or indirectly, in any entity or business, and is not presently engaged in any outside business activity in competition with AXOGEN;
- (ii) this NSNC Agreement is executed by Employee to protect the legitimate business interests of the Employer;
- (iii) legitimate business interests of the Employer to be protected by this NSNC Agreement include, without limitation, the protection of:
 - a. valuable trade secrets of the Employer;
 - b. the customer and vendor base of the Employer;
 - c. confidential customer and vendor information belonging to the Employer;
 - d. substantial business relationships between the Employer and its existing and prospective customers and vendors;
 - e. goodwill associated with the specialized expertise of Employer; and
 - f. specialized training undertaken by the Employer and its employees.
- (iv) the other covenants and restrictions of this NSNC Agreement are appropriate and reasonable in all respects in light of the legitimate business interests of the Employer to be protected.
- (v) the Employer and Employee have considered the public's health, safety and welfare, and that nothing contained in this NSNC Agreement will adversely affect the public's health, safety or welfare.
- (vi) the execution and delivery of this NSNC Agreement, and the restrictions contained herein, the performance by Employee of the covenants and agreements contained herein, and the enforcement by the Employer of the provisions contained herein, will cause no undue hardship on Employee.

5. **Other Restrictions.** In consideration of Employer's agreement to employ, or to continue the employment of, Employee, and in accordance with the terms and conditions of this NSNC Agreement, the Employee hereby agrees as follows:

- (i) The restrictions on employment contained above are essential elements of this NSNC Agreement, and that, but for the agreement of Employee to comply with such restrictions, the Employer would not have entered into the NSNC Agreement or the Agreement. The restrictions contained within this NSNC Agreement are reasonably necessary to protect the legitimate business interests of the Employer. The restrictions assist in assuring the continuity and growth of the Employer in the achievement of its goals and objectives. The legitimate business interests justifying the restrictions include, but are not limited to, trade secrets, valuable business information or professional information that otherwise do not qualify as trade secrets, substantial relationships with prospective and existing customers and vendors, or goodwill associated with the name of the Employer.

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6. **Remedies for Breach.** Employee acknowledges and agrees that, in the event of a breach or threatened breach of any of the provisions of this NSNC Agreement, the Employer would suffer irreparable harm for which monetary damages would be inadequate. Accordingly, in addition to any other remedies available, at law or in equity, in the event of a breach or threatened breach by Employee of such provisions, the Employer will be entitled to equitable relief in the form of an injunction against such breach, both preliminary and permanent, without the requirement to post a bond or other security or to prove irreparable injury or inadequate remedy at law, specific performance or other appropriate relief.

7. **Tolling.** In the event that the Employer shall file a lawsuit in any court of competent jurisdiction alleging a breach of any of Employee's obligations under this NSNC Agreement, then any time period set forth in this NSNC Agreement, including the time periods set forth above, shall be deemed tolled as of the time such lawsuit is filed and shall remain tolled until such dispute finally is resolved either by written settlement agreement resolving all claims raised in such lawsuit or by entry of a final judgment in such lawsuit, including the final resolution of any post-judgment appellate proceedings.

8. **Assignment.** This NSNC Agreement and all rights and benefits hereunder are personal to Employee, and neither this NSNC Agreement, nor any right or interest herein of Employee shall be voluntarily or involuntarily sold, transferred or assigned by Employee; provided, however, that the Employer may assign its rights, duties and obligations hereunder without the prior written consent of Employee.

9. **Severability.** In the event any provision of this NSNC Agreement is held illegal or invalid, the remaining provisions of this NSNC Agreement and the Agreement shall not be affected thereby. If any of the restrictions contained in this NSNC Agreement or any part thereof is held to be unenforceable, the Parties agree that the court making such determination will have the power to reform the provisions of this NSNC Agreement to the extent permitted by applicable law.

10. **No Defense to Enforcement.** The existence of any claim or cause of action by Employee against AXOGEN predicated on the Agreement herein, shall not constitute a defense to the enforcement by AXOGEN of this NSNC Agreement.

THE PARTIES TO THIS AGREEMENT have executed this Agreement as of the 12th day of May, 2014.

AXOGEN Corporation

/s/ Karen Zaderej

Name: Karen Zaderej

Title: CEO

EMPLOYEE

/s/ Robert Johnston, Jr.

Print Name: Robert Johnston, Jr.

**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: August 4, 2014

/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, Lee R. Johnston, Jr., 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: August 4, 2014

/s/ Lee R. Johnston, Jr.
Lee R. Johnston, Jr.
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 Lee R. Johnston, Jr., 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: August 4, 2014

/s/ Karen Zaderej

Karen Zaderej
Chief Executive Officer
(Principal Executive Officer)

/s/ Lee R. Johnston, Jr.

Lee R. Johnston, Jr.
Chief Financial Officer
(Principal Financial Officer)
