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, 2015**

or

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

For the transition period from ____________ to______________

Commission file number: 001-36046

AxoGen, Inc.
(Exact name of registrant as specified in its charter)

Minnesota	**41-1301878**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
13631 Progress Blvd., Suite 400, Alachua, FL	**32615**
(Address of principal executive offices)	(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 5, 2015 the registrant had 24,932,392 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.

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, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 15,622,932	$ 8,215,791
Accounts receivable, net of allowance for doubtful accounts of approximately $148,000 and $94,000 respectively	3,838,023	2,872,308
Inventory	3,539,957	3,213,620
Prepaid expenses and other	241,108	109,369
Total current assets	23,242,020	14,411,088
Property and equipment, net	663,910	619,028
Intangible assets	608,539	577,174
Deferred financing costs	908,684	793,499
	$ 25,423,153	$ 16,400,789
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,408,122	$ 2,431,194
Current deferred revenue	14,118	14,118
Total current liabilities	3,422,240	2,445,312
Note Payable - Revenue Interest Purchase Agreement	25,426,647	25,085,777
Long Term Deferred Revenue	104,589	115,380
Total liabilities	28,953,476	27,646,469
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock, $.01 par value; 50,000,000 shares authorized; 24,932,392 and 19,488,814 shares issued and outstanding	249,323	194,888
Additional paid-in capital	93,102,681	78,675,686
Accumulated deficit	(96,882,327)	(90,116,254)
Total shareholders' equity (deficit)	(3,530,323)	(11,245,680)
	$ 25,423,153	$ 16,400,789

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues	$ 6,417,253	$ 4,214,193	$ 11,368,569	$ 7,352,449
Cost of goods sold	1,039,841	887,820	2,022,722	1,589,121
Gross profit	5,377,412	3,326,373	9,345,847	5,763,328
Costs and expenses:				
Sales and marketing	4,812,262	3,354,912	8,744,783	6,075,619
Research and development	736,399	555,758	1,407,435	1,368,373
General and administrative	1,982,020	1,713,447	3,890,602	3,608,222
Total costs and expenses	7,530,681	5,624,117	14,042,820	11,052,214
Loss from operations	(2,153,269)	(2,297,744)	(4,696,973)	(5,288,886)
Other income (expense):				
Interest expense	(1,023,774)	(1,392,098)	(2,018,522)	(2,583,415)
Interest expense — deferred financing costs	(31,210)	(52,217)	(64,956)	(103,432)
Other income (expense)	17,380	588	14,378	(5,303)
Total other income (expense)	(1,037,604)	(1,443,727)	(2,069,100)	(2,692,150)
Net Loss	$(3,190,873)	$(3,741,471)	$(6,766,073)	$(7,981,036)
Weighted Average Common Shares outstanding — basic and diluted	24,928,435	17,461,332	23,729,558	17,422,773
Loss Per Common share — basic and diluted	$ (0.13)	$ (0.21)	$ (0.29)	$ (0.46)

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities:		
Net loss	$(6,766,073)	$(7,981,036)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	87,610	67,887
Amortization of intangible assets	22,710	22,099
Amortization of deferred financing costs	64,957	103,432
Stock-based compensation	696,625	474,144
Stock grant for service	—	60,125
Interest added to note payable	340,870	1,878,894
Change in assets and liabilities:		
Accounts receivable	(965,715)	(633,254)
Inventory	(326,337)	(12,004)
Prepaid expenses and other	(131,739)	151,744
Accounts payable and accrued expenses	976,928	155,113
Deferred revenue	(10,791)	(7,143)
Net cash used for operating activities	(6,010,955)	(5,719,999)
Cash flows from investing activities:		
Purchase of property and equipment	(132,492)	(283,476)
Acquisition of intangible assets	(54,075)	(30,305)
Net cash used for investing activities	(186,567)	(313,781)
Cash flows from financing activities:		
Proceeds from issuance of common stock	13,770,734	—
Debt issuance costs	(180,142)	—
Proceeds from exercise of stock options	14,071	134,362
Net cash provided by financing activities	13,604,663	134,362
Net increase / (decrease) in cash and cash equivalents	7,407,141	(5,899,418)
Cash and cash equivalents, beginning of year	8,215,791	20,069,750
Cash and cash equivalents, end of period	$15,622,932	$14,170,332
Supplemental disclosures of cash flow activity:		
Cash paid for interest	$ 1,649,881	$ 664,546

See notes to condensed consolidated financial statements.

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, 2015 and December 31, 2014 and for the three and six month periods ended June 30, 2015 and 2014. 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, 2014, which are included in the Annual Report on Form 10-K as of and for the year ended December 31, 2014. 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

AxoGen, Inc. is a leading medical technology company dedicated to peripheral nerve repair. The company has created and licensed a unique combination of patented nerve repair technologies to change the standard of care for patients with peripheral nerve injuries. AxoGen's portfolio of regenerative medicine products is available in the United States, Canada and several other countries and includes Avance® Nerve Graft, an off-the-shelf commercially available processed human nerve allograft for bridging severed nerves without the comorbidities associated with an additional surgical site, AxoGuard® Nerve Connector, a porcine submucosa extracellular matrix ("ECM") coaptation aid for tensionless repair of severed nerves, 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 and the AxoTouch™ Two-Point Discriminator, a tool useful for measuring sensation after a nerve injury, following the progression of a repaired nerve, and during the evaluation of a person with a possible nerve injury, such as nerve division or nerve compression.

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 shipped to the customer or distributor, at which time title passes to the customer or distributor. Once a product is shipped, the Company has no further performance obligations. Shipped product is defined as product being shipped from our facility via courier 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. In the case of revenues from consigned sales delivery is determined when the product is utilized in a surgical procedure. 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 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 $148,000 and $94,000 at June 30, 2015 and December 31, 2014, 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:

	June 30, 2015	December 31, 2014
Finished goods	$2,403,791	$2,072,235
Work in process	240,054	331,891
Raw materials	896,112	809,494
	$3,539,957	$3,213,620

Inventories were net of reserve of approximately $653,000 and $404,000 at June 30, 2015 and December 31, 2014, respectively.

Income Taxes

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

The Company identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet. The Company has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company's remaining open tax years subject to examination by the Internal Revenue Service include the years ended December 31, 2011 through 2014; 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, accounts receivable, 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 October 2011 merger of LecTec, Inc. and AxoGen Corporation, and based on the Company's common stock for periods subsequent to such 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,	2015	2014
Expected term (in years)	4	4
Expected volatility	76.24 %	79.80 %
Risk free rate	1.21 %	1.20 %
Expected dividends	— %	— %

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, 2015 and 2014 as they were deemed insignificant.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03") which changes the presentation of debt issuance costs in financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. ASU 2015-03 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. We do not expect the adoption of this standard will have a material impact on our consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02") which updates the considerations on whether an entity should consolidate certain legal entities. The update removes the indefinite deferral of specialized guidance for certain investment funds and changes the way that entities evaluate limited partnerships and fees paid to service providers in the consolidation determination. ASU 2015-02 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

In January 2015, the FASB issued guidance, which completely eliminates all references to and guidance concerning the concept of an extraordinary item from GAAP. The updated guidance is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted but we do not anticipate electing early adoption. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued updated guidance related to stock compensation. The amendment requires that a performance target that affects vesting and that could be achieved after the requisite period, be treated as a performance condition. The updated guidance is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted but we do not anticipate electing early adoption. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued a new standard on revenue recognition which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016; however, on July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The proposed deferral may permit early adoption, but would not allow adoption any earlier than the original effective date of the standard. We are currently evaluating the impact this standard will have on our consolidated financial statements.

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

4. Property and Equipment

Property and equipment consist of the following:

	June 30, 2015	December 31, 2014
	(unaudited)	
Furniture and equipment	$ 955,743	$873,824

Leasehold improvements	300,697	285,697
Processing equipment	1,230,285	1,194,712
Less: accumulated depreciation and amortization	(1,822,815)	(1,735,205)
Property and equipment	$ 663,910	$ 619,028

5. Intangible Assets

The Company's intangible assets consist of the following:

	June 30, 2015	December 31, 2014
	(unaudited)	
License agreements	$ 860,006	$ 850,859
Patents	124,924	79,996
Less: accumulated amortization	(376,391)	(353,681)
Intangible assets, net	$ 608,539	$ 577,174

License agreements are being amortized over periods ranging from 17-20 years. Patent costs were being amortized over three years. As of June 30, 2015, the patents were fully amortized, and the remaining patents of $124,924 were pending patent costs and were not amortizable. Amortization expense was approximately $11,000 and $11,000 for the three months ended June 30, 2015 and 2014, respectively, and approximately $23,000 and $22,000 for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, future amortization of license agreements for the next five years is expected to be $25,000 for the remainder of 2015 and $48,000 for 2016 through 2020.

License Agreements

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

- AxoGen pays royalty fees ranging from 1% to 3% under the License Agreements based on net sales of licensed products. One of the agreements also contains a minimum royalty of $12,500 per quarter, which may include a credit in future quarters in the same calendar year for the amount the minimum royalty exceeds the royalty fees. Also, when AxoGen pays royalties to more than one licensor for sales of the same product, a royalty stack cap applies, capping total royalties at 3.75%;

- If AxoGen sublicenses technologies covered by the License Agreements to third parties, AxoGen would pay a percentage of sublicense fees received from the third party to the licensor. Currently, AxoGen does not sublicense any technologies covered by License Agreements. The Company is not considered a sub-licensee under the License Agreements and does not owe any sublicensee fees for its own use of the technologies;

- AxoGen reimburses the licensors for certain legal expenses incurred for patent prosecution and defense of the technologies covered by the License Agreements; and

- Currently, under one of the License Agreements, AxoGen would owe a $15,000 milestone fee upon receiving a Phase II Small Business Innovation Research or Phase II Small Business Technology Transfer grant involving the licensed technology. The Company has not received either grant and does not owe such a milestone

fee. Other milestone fees are due if AxoGen develops certain pharmaceutical or medical device products under the License Agreements. No such products are currently under development.

Royalty fees were approximately $121,000 and $85,000 during the three months ended June 30, 2015 and 2014, respectively, and were $217,000 and $145,000 for the six months ended June 30, 2015 and 2014, respectively, 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 consists of the following:

	June 30, 2015	December 31, 2014
Accounts payable	$1,838,425	$1,160,859
Miscellaneous accruals	205,809	105,315
Accrued compensation	1,363,888	1,165,020
Accounts Payable and Accrued Expenses	$3,408,122	$2,431,194

7. Notes Payable

Notes Payable consists of the following:

	June 30, 2015	December 31, 2014
Term Loan and Revenue Interest Agreement with Three Peaks Capital S.a.r.l. ("Three Peaks") for a total term loan amount of $25,000,000 which has a six year term and requires interest only payments and a final principal payment due at the end of the term. Interest is payable quarterly at 9.00% per annum plus the greater of LIBOR or 1.0% which as of June 30, 2015 and December 31, 2014 resulted in a 10% rate. The Revenue Interest Agreement is for a period of ten years. Royalty payments are based on a royalty rate of 3.75% of revenues up to a maximum of $30 million in revenues in any 12 month period.	$25,426,647	$25,085,777
Long-term portion	$25,426,647	$25,085,777

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. The Royalty Contract had a term of eight years. Under the Royalty Contract, PDL received royalty payments based on a royalty rate of 9.95% of the Company's Net Revenues, subject to certain agreed upon minimum payment requirements, which were anticipated to be approximately $1.3 million to $2.5 million per quarter to begin in the fourth quarter of 2014 through the third quarter of 2020 as provided in the Royalty Contract. The Company recorded interest using its best estimate of the effective interest rate accruing interest using the specified internal rate of return of the Put Option of 20%. The total consideration PDL paid to the Company was $20,800,000 (the "Funded Amount"), which included $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. On November 12, 2014, the Company paid PDL $30.3 million to fully extinguish the Royalty Contract. The Company has no further obligations under the Royalty Contract.

On November 12, 2014, the Company sold 643,382 shares of common stock for a total of $1.75 million to PDL ("PDL Equity Sale") at a price of $2.72 per share pursuant to a Securities Purchase Agreement by and between the Company and PDL. The Company intends to use the proceeds from the PDL Equity Sale for general corporate purposes.

Term Loan Agreement and Revenue Interest Agreement

On November 12, 2014, (the "Signing Date"), AxoGen, as borrower, and AC, as guarantor, entered into a term loan agreement (the "Term Loan Agreement") with the lenders party thereto and Three Peaks Capital S.a.r.l. ("Three Peaks"), an indirect wholly-owned subsidiary of Oberland Capital Healthcare Master Fund LP ("Oberland"), as administrative and collateral agent for the lenders. Under the Term Loan Agreement, Three Peaks has agreed to lend to AxoGen a term loan of $25 million (the "Initial Term Loan") which has a six year term and requires interest only payments and a final principal payment due at the end of the term. Interest is payable quarterly at 9.00% per annum plus the greater of LIBOR or 1.0% which as of November 13, 2014 ("the Initial Closing Date") resulted in a 10% rate. Under certain conditions, AxoGen has the option to draw an additional $7 million ("Subsequent Borrowing" and, together with the Initial Term Loan, the "Term Loan") during the period of April 1, 2016 through June 29, 2016 (the closing date of each such Subsequent Borrowing, a ("Subsequent Closing Date" and, together with the Initial Closing Date, the "Closing Dates") under similar terms and conditions. AxoGen has to maintain certain covenants including limiting new indebtedness, restriction of the payment of dividends and maintain certain levels of revenue. Three Peaks has a first perfected security interest in the assets of AxoGen.

In addition, AxoGen entered into a 10 year Revenue Interest Agreement ("Revenue Interest Agreement") with Three Peaks. Royalty payments are based on a royalty rate of 3.75% of AxoGen's revenues up to a maximum of $30 million in revenues in any 12 month period. In the event the Subsequent Borrowing is drawn, the royalty rate increases proportionally up to a maximum of 4.80% AxoGen has to maintain certain covenants including those covenants under the Term Loan.

Under the Term Loan Agreement, AxoGen has the option at any time to prepay the Term Loan, in whole or in part, and the Royalty Interest Agreement, defined below, by making the following payment, and Three Peaks has the right to demand the following payment upon a change of control of AxoGen, sale of the majority of AxoGen's assets or a material adverse change to AxoGen: (i) on or prior to the first anniversary of the applicable Closing Date, 120% of the outstanding principal amount of the Term Loan or any portion being prepaid; (ii) after the first anniversary but no later than the second anniversary of the applicable Closing Date, 135% of the outstanding principal amount of the Term Loan or any portion being prepaid; (iii) after the second anniversary but no later than the third anniversary of the applicable Closing Date, 150% of the outstanding principal amount of the Term Loan or any portion being prepaid; or (iv) after the third anniversary of the applicable Closing Date, an amount generating an Internal Rate of Return of 16.25% of the outstanding principal amount of the Term Loan or any portion being prepaid. In all cases, the amount due is reduced by the sum of interest and principal previously paid and all amounts received under the Revenue Interest Agreement. In each such case AxoGen will also owe an additional 3% of the originally advanced Term Loan amount. Upon payment to Three Peaks, AxoGen would have no further obligations to Three Peaks under the Term Loan or the Revenue Interest Agreement.

In connection with the Term Loan Agreement, on the Signing Date, the Company and its wholly owned subsidiary, AC entered into a Security Agreement (the "Security Agreement") with Three Peaks, pursuant to which each of the Company and AC grants to Three Peaks a security interest in certain collateral as specified in the Security Agreement to guarantee the payment in full when due of the Secured Obligations. In the event of default per the terms of the Term Loan Agreement Three Peaks would have the ability to foreclose on the pledged collateral and the Company and AC would not be able to continue its current business if such foreclosure occurred.

Also in connection with the above transaction, the Company sold 1,375,969 shares of common stock to Three Peaks for a total of $3.55 million ("Three Peaks Equity Sale") at a price of $2.58 per share. Pursuant to the equity purchase provisions in the Three Peaks Term Loan Agreement, in the event that we sell prior to November 12, 2016 our securities at a lower price per share than the $2.58 per share paid by Three Peaks, or where the terms of such subsequent sale are otherwise more favorable, then in such case we have agreed to match the more favorable terms of such subsequent sale with respect to the shares purchased by Three Peaks. A subsequent sale does not include the issuance of securities or options to our employees, officers, directors or consultants pursuant to our approved employee option pool or any other employee stock purchase or option plan existing as of November 12, 2014.

The Company records interest using its best estimate of the effective interest rate. This estimate takes into account both the rate on the Term Loan Agreement and the rate associated with the 10 year Revenue Interest Agreement with Three Peaks. The effective interest rate is based on actual payments to date, projected future revenues and the projected royalty payments and the quarterly interest payments due on the Term Loan Agreement. From time to time, AxoGen 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. Determination of these assumptions is highly subjective and different assumptions could lead to materially different outcomes.

8. Stock Options

The Company granted stock options to purchase 295,500 shares of common stock pursuant to its 2010 Stock Incentive Plan for the six months ended June 30, 2015. Stock-based compensation expense was $328,376 and $216,602 for the three months ended June 30, 2015 and 2014, respectively and $696,625 and $474,144 for the six months ended June 30, 2015 and 2014, respectively. Total future stock compensation expense related to nonvested awards is expected to be approximately $1,996,000 at June 30, 2015.

9. Public Offering of Common Stock

On February 5, 2015, AxoGen entered into the Underwriting Agreement with the Underwriter, in connection with the offering, issuance and sale (the “Offering”) of 4,728,000 shares of the Company’s common shares, par value $0.01 per share (the “Common Shares”), at a price to the public of $2.75 per share. The Company also granted to the Underwriter a 30-day option to purchase up to an aggregate of 709,200 additional Common Shares to cover over-allotments, if any.

The Offering was made pursuant to the Company’s effective shelf registration statement on Form S-3 (Registration No. 333-195588) previously filed with the Securities and Exchange Commission, and pursuant to the prospectus supplement and the accompanying prospectus describing the terms of the Offering, dated February 5, 2015.

As of February 13, 2015, the Offering was completed with the sale of 5,437,200 Common Shares, which included the exercise of the over-allotment option, at $2.75 per share resulting in gross proceeds to AxoGen from the Offering of approximately $15.0 million, before deducting underwriting discounts and commissions and other estimated offering expenses payable by AxoGen estimated at approximately $1.4 million. The Common Shares were listed on the NASDAQ Capital Market.

10. Commitments and Contingencies

Commercial Lease

On April 21, 2015, AxoGen Corporation, a wholly owned subsidiary of AxoGen, Inc. (“AxoGen” or the “Company”), entered into a Commercial Lease with Ja-Cole, L.P. (the “New Lease”) for property located in Burleson, Texas. The New Lease supersedes and replaces a current lease with Ja-Cole. Under the terms of the New Lease, AxoGen leased an additional 2,100 square feet of warehouse space that will be combined with its current 5,400 square feet of warehouse/office space in Burleson, Texas. The New Lease is for a three year term expiring April 21, 2018, renewable thereafter by agreement of the parties, at an annual cost of $60,000 per year. The expanded Burleson facility will house raw material storage and product distribution and allow expansion space as required for AxoGen operations.

Processing Agreement

Under an Amended and Restated Nerve Tissue Processing Agreement (the “LifeNet Agreement”) with LifeNet Health, AxoGen processes and packages Avance® Nerve Graft using its employees and equipment located at LifeNet Health, Virginia Beach, Virginia. As a result of business requirements of LifeNet Health and their need for additional space, on April 16, 2015 they notified AxoGen that it will need to transition out of the Virginia Beach facility on or before February 27, 2016 and therefore is terminating the LifeNet Agreement effective February 27, 2016. AxoGen has entered into an agreement with Community Blood Center (d/b/a Community Tissue Services) ("CTS") as a result this termination.

11. Subsequent Events

License and Services Agreement

On August 6, 2015, AxoGen Corporation ("AxoGen") entered into a License and Services Agreement (the "Agreement") with CTS. Headquartered in Dayton, Ohio, CTS is a nonprofit quality, ethical provider of services to recipients, donor families, medical communities, and community partners through the respectful recovery, processing and distribution of tissue grafts. CTS, an accredited member of the AATB, is one of the largest nonprofit tissue banks in the United States having in 2014 distributed more than 355,000 tissue grafts to over 5,000 hospitals, physicians and surgeons. Pursuant to the Agreement, AxoGen will process and package its Avance® Nerve Graft using its employees and equipment located at CTS. It is anticipated that processing currently being performed at LifeNet Health, will be transferred completely to the CTS facility by the end of first quarter of 2016.

The Agreement is for a 5 year term, subject to earlier termination by either party for cause, or after the two year anniversary of the Agreement without cause, upon 180 days' notice. Under the Agreement AxoGen pays CTS a facility fee for clean room/processing, storage and office space. CTS also provides services in support of AxoGen's processing such as routine sterilization of daily supplies, providing disposable supplies, microbial services and office support. The service fee is based on a per donor batch rate. It is anticipated that the Company will have approximately $400,000 of capital expenditures for the placement of equipment and build-out at this facility.

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").

OVERVIEW

AxoGen, Inc. (NASDAQ: AXGN) is a leading medical technology company dedicated to peripheral nerve repair. The company has created and licensed a unique combination of patented nerve repair technologies to change the standard of care for patients with peripheral nerve injuries. AxoGen's portfolio of regenerative medicine products is available in the United States, Canada and several other countries and includes Avance® Nerve Graft, an off-the-shelf processed human nerve allograft for bridging severed nerves without the comorbidities associated with an additional surgical site, AxoGuard® Nerve Connector, a porcine submucosa extracellular matrix ("ECM") coaptation aid for tensionless repair of severed nerves, 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 and the AxoTouch™ Two-Point Discriminator, a tool useful for measuring sensation after a nerve injury, following the progression of a repaired nerve, and during the evaluation of a person with a possible nerve injury, such as nerve division or nerve compression.

Revenue from the distribution of these products is the main contributor to AxoGen's total reported sales and has been the key component of its growth to date. AxoGen revenues increased in the first six months of 2015 compared to 2014 primarily as a result of sales to new accounts, increased product usage by existing accounts and a price increase effective March 1, 2015. 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, 2015 and 2014

<u>Revenues</u>

Revenues for the three months ended June 30, 2015 increased 52.3% to approximately $6,417,000 as compared to approximately $4,214,000 for the three months ended June 30, 2014. Additionally, revenues for the six months ended June 30, 2015 increased 54.6% to approximately $11,369,000 as compared to approximately $7,352,000 for the six months ended June 30, 2014. This increase was primarily a result of increased product usage by existing accounts and sales to new accounts. Also contributing to the increase, AxoGen recognized approximately $128,000 and $57,000 of grant revenue in the three months ended June 30, 2015 and 2014, respectively and $270,000 and $119,000 of grant revenue in the six months ended June 30, 2015 and 2014, respectively.

<u>Gross Profit</u>

Gross profit for the three months ended June 30, 2015 increased 61.7% to approximately $5,377,000 as compared to approximately $3,326,000 for the three months ended June 30, 2014. Such increase in aggregate dollars was primarily attributable to the increased revenues in the second quarter of 2015, and to a lesser extent by an improvement in gross margin. Gross margin improved to 83.8% for the three months ended June 30, 2015 as compared to 78.9% for the same period in 2014 as a result of processing efficiencies and favorable product mix as a result of changes both within and between product lines.

Gross profit for the six months ended June 30, 2015 increased 62.2% to approximately $9,346,000 as compared to approximately $5,763,000 for the six months ended June 30, 2014. Such increase in aggregate dollars was primarily attributable to the increased revenues in the first six months of 2015, and to a lesser extent by an improvement in gross margin. Gross margin improved to 82.2% for the six months ended June 30, 2015 as compared to 78.4% for the same period in 2014 as a result of processing efficiencies and changes in product mix as a result of changes both within and between product lines.

Costs and Expenses

Total cost and expenses increased 33.9% to approximately $7,531,000 for the three months ended June 30, 2015 as compared to approximately $5,624,000 for the three months ended June 30, 2014. These increases were primarily due to increased sales and marketing activities along with an increase in research and development as the Company began its clinical trial for the Avance© Nerve Graft.

Total cost and expenses increased 27.1% to approximately $14,043,000 for the six months ended June 30, 2015 as compared to approximately $11,052,000 for the six months ended June 30, 2014. These increases were primarily due to increasing sales and marketing activities along with increases in employee compensation. These increases were also attributable to expenses associated with being a public company, facility costs and research and development costs associated with the Company's preparation for, and start of, its clinical trial for Avance® Nerve Graft.

Sales and marketing expenses increased 43.4% to approximately $4,812,000 for the three months ended June 30, 2015 as compared to approximately $3,355,000 for the three months ended June 30, 2014. This increase was primarily due to the costs associated with the continued expansion of our direct sales force and surgeon education programs, and to a lesser extent increased support for both our direct sales force and independent distributors.. As a percentage of revenues, sales and marketing expenses were 75.0% for the three months ended June 30, 2015 compared to 79.6% for the three months ended June 30, 2014. 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 43.9% to approximately $8,745,000 for the six months ended June 30, 2015 as compared to approximately $6,076,000 for the six months ended June 30, 2014. This increase was primarily due to the costs associated with the continued expansion of the direct sales force and surgeon education programs, and to a lesser extent increased support for both AxoGen's direct sales force and independent distributors. As a percentage of revenues, sales and marketing expenses were 76.9% for the six months ended June 30, 2015 compared to 82.6% for the six months ended June 30, 2014. 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 15.7% to approximately $1,982,000 for the three months ended June 30, 2015 as compared to approximately $1,713,000 for the three months ended June 30, 2014. Such increase was primarily a result of increased expenses related to payroll. Certain costs associated with being a public company and bank charges related to sales activity also increased, offset by a reduction in travel expenses and certain outside service costs. As a percentage of revenues, general and administrative expenses were 30.9% for the three months ended June 30, 2015 as compared to 40.7% for the three months ended June 30, 2014. 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 7.8% to approximately $3,891,000 for the six months ended June 30, 2015 as compared to approximately $3,608,000 for the six months ended June 30, 2014. The increase was primarily a result of increased expenses related to payroll. Bank charges related to sales activity also increased, offset by a reduction in certain outside service costs. As a percentage of revenues, general and administrative expenses were 34.2% for the six months ended June 30, 2015 as compared to 49.1% for the six months ended June 30, 2014. 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 32.4% to approximately $736,000 in the three months ended June 30, 2015 as compared to approximately $556,000 for the three months ended June 30, 2014. Research and development costs increased 2.9% to approximately $1,407,000 in the six months ended June 30, 2015 as compared to approximately $1,368,000 for the six months ended June 30, 2014. Research and development includes AxoGen's product development and clinical efforts substantially focused on its biological license application ("BLA") for the Avance® Nerve Graft. This activity varies from quarter to quarter due to the timing of certain projects. A substantial portion of the research and development expenses in 2014 and thus far in 2015, relate to expenditures for such clinical activity including preparation for, and the start of, the pivotal clinical trial to support the BLA, and hiring additional personal to support both clinical and product development activity. It is expected that costs associated with the BLA will continue to increase as more patients are enrolled in the trial over approximately the next two years. Although AxoGen's products are developed for sale in their current use, it does conduct limited research and product development efforts focused on new products and new applications to existing products. AxoGen has become more active in pursuing research grants to support this research. This AxoGen product pipeline development also contributed to a portion of the research and development expenses in 2015, with grant revenue offsetting a portion of this activity.

Other Income and Expenses

Interest expense decreased 26.4% to approximately $1,024,000 for the three months ended June 30, 2015 as compared to approximately $1,392,000 for the three months ended June 30, 2014. Interest expense decreased 21.8% to approximately $2,019,000 for the six months ended June 30, 2015 as compared to approximately $2,583,000 for the six months ended June 30, 2014. This decrease was due to the difference in the interest related to the Revenue Interest Agreement with Three Peaks as compared to the interest related to the Royalty Contract and the interest accrued related to PDL. As a result of the accounting treatment for the Three Peaks and the PDL transaction, interest expense included approximately $177,000 and $1,031,000 for the three months ended June 30, 2015 and 2014, respectively, and approximately $369,000 and $1,917,000 for the six months ended June 30, 2015 and 2014, respectively, of non-cash expense that is based upon the terms of the Three Peaks and PDL transactions and increases in AxoGen revenues. Other than the $369,000 and $1,917,000 non-cash expense, the remaining $1,650,000 and $665,000 in interest expense for the six months ended June 30, 2015 and 2014, respectively, is related to cash paid for interest on the Term Loan Agreement and note payable.

Interest expense—deferred financing costs decreased 40.4% to approximately $31,000 for the three months ended June 30, 2015 as compared to approximately $52,000 for the three months ended June 30, 2014. Interest expense—deferred financing costs decreased 36.9% to approximately $65,000 for the six months ended June 30, 2015 as compared to approximately $103,000 for the six months ended June 30, 2014. This decrease is primarily due to lower deferred financing cost amortization associated with the Three Peaks agreement as compared to the PDL agreement.. Additionally, the deferred financing fees associated with the Three Peaks agreement are spread out over 10 years compared to 8 years for the PDL agreement.

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, 2015 and 2014 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 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. The Royalty Contract had a term of eight years. Under the Royalty Contract, PDL received royalty payments based on a royalty rate of 9.95% of the Company's Net Revenues, subject to certain agreed upon minimum payment requirements, which were anticipated to be approximately $1.3 million to $2.5 million per quarter to begin in the fourth quarter of 2014 through the third quarter of 2020 as provided in the Royalty Contract. The Company recorded interest using its best estimate of the effective interest rate accruing interest using the specified internal rate of return of the Put Option of 20%. The total consideration PDL paid to the Company was $20,800,000 (the "Funded Amount"), which included $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. On November 12, 2014, the Company paid PDL $30.3 million to fully extinguish the Royalty Contract. The Company has no further obligations under the Royalty Contract.

As a result of the accounting treatment for the PDL transaction, interest expense for the six months ended June 30, 2014 included approximately $1,917,000 of non-cash expense that was to be paid in the future based upon the terms of the PDL transaction and increases in AxoGen revenues. The $1,917,000 of non-cash expense was derived from taking the effective interest on the put in 2014 on the PDL agreement less the actual cash payment made to PDL for the six months. Other than the $1,917,000 non-cash expense, the remaining $665,000 in interest expense for the six months ended June 30, 2014 is related to cash paid for interest on the note payable with PDL.

On November 12, 2014, the Company sold 643,382 shares of common stock for a total of $1.75 million to PDL ("PDL Equity Sale") at a price of $2.72 per share pursuant to a Securities Purchase Agreement by and between the Company and PDL. The Company intends to use the proceeds from the PDL Equity Sale for general corporate purposes.

Term Loan Agreement and Revenue Interest Agreement

On November 12, 2014, (the "Signing Date"), AxoGen, as borrower, and AC, as guarantor, entered into a term loan agreement (the "Term Loan Agreement") with the lenders party thereto and Three Peaks Capital S.a.r.l. ("Three Peaks"), an indirect wholly-owned subsidiary of Oberland Capital Healthcare Master Fund LP ("Oberland"), as administrative and collateral agent for the lenders. Under the Term Loan Agreement, Three Peaks has agreed to lend to AxoGen a term loan of $25 million (the "Initial Term Loan") which has a six year term and requires interest only payments and a final principal payment due at the end of the term. Interest is payable quarterly at 9.00% per annum plus the greater of LIBOR or 1.0% which as of November 13, 2014 ("the Initial Closing Date") resulted in a 10% rate. Under certain conditions, AxoGen has the option to draw an additional $7 million ("Subsequent Borrowing" and, together with the Initial Term Loan, the "Term Loan") during the period of April 1, 2016 through June 29, 2016 (the closing date of each such Subsequent Borrowing, a "Subsequent Closing Date" and, together with the Initial Closing Date, the "Closing Dates") under similar terms and conditions. AxoGen has to maintain certain covenants including limiting new indebtedness, restriction of the payment of dividends and maintain certain levels of revenue. Three Peaks has a first perfected security interest in the assets of AxoGen.

In addition, AxoGen entered into a 10 year Revenue Interest Agreement ("Revenue Interest Agreement") with Three Peaks. Royalty payments are based on a royalty rate of 3.75% of AxoGen's revenues up to a maximum of $30 million in revenues in any 12 month period. In the event the Subsequent Borrowing is drawn, the royalty rate increases proportionally up to a maximum of 4.80%. AxoGen has to maintain certain covenants including those covenants under the Term Loan.

Under the Term Loan Agreement, AxoGen has the option at any time to prepay the Term Loan, in whole or in part, and the Royalty Interest Agreement, defined below, by making the following payment, and Three Peaks has the right to demand the following payment upon a change of control of AxoGen, sale of the majority of AxoGen's assets or a material adverse change to AxoGen: (i) on or prior to the first anniversary of the applicable Closing Date, 120% of the outstanding principal amount of the Term Loan or any portion being prepaid; (ii) after the first anniversary but no later than the second anniversary of the applicable Closing Date, 135% of the outstanding principal amount of the Term Loan or any portion being prepaid; (iii) after the second anniversary but no later than the third anniversary of the applicable Closing Date, 150% of the outstanding principal amount of the Term Loan or any portion being prepaid; or (iv) after the third anniversary of the applicable Closing Date, an amount generating an Internal Rate of Return of 16.25% of the outstanding principal amount of the Term Loan or any portion being prepaid. In all cases, the amount due is reduced by the sum of interest and principal previously paid and all amounts received under the Revenue Interest Agreement. In each such case AxoGen will also owe an additional 3% of the originally advanced Term Loan amount. Upon payment to Three Peaks, AxoGen would have no further obligations to Three Peaks under the Term Loan or the Revenue Interest Agreement.

In connection with the Term Loan Agreement, on the Signing Date, the Company and its wholly owned subsidiary, AC entered into a Security Agreement (the "Security Agreement") with Three Peaks, pursuant to which each of the Company and AC grants to Three Peaks a security interest in certain collateral as specified in the Security Agreement to guarantee the payment in full when due of the Secured Obligations. In the event of default per the terms of the Term Loan Agreement Three Peaks would have the ability to foreclose on the pledged collateral and the Company and AC would not be able to continue its current business if such foreclosure occurred.

Also in connection with the above transaction, the Company sold 1,375,969 shares of common stock to Three Peaks for a total of $3.55 million ("Three Peaks Equity Sale") at a price of $2.58 per share. Pursuant to the equity purchase provisions in the Three Peaks Term Loan Agreement, in the event that we sell prior to November 12, 2016 our securities at a lower price per share than the $2.58 per share paid by Three Peaks, or where the terms of such subsequent sale are otherwise more favorable, then in such case we have agreed to match the more favorable terms of such subsequent sale with respect to the shares purchased by Three Peaks. A subsequent sale does not include the issuance of securities or options to our employees, officers, directors or consultants pursuant to our approved employee option pool or any other employee stock purchase or option plan existing as of November 12, 2014.

As a result of the accounting treatment for the Three Peaks transaction, interest expense for the six months ended June 30, 2015 included approximately $369,000 of non-cash expense that is expected to be paid in the future based upon the terms of the Three Peaks transaction and increases in AxoGen revenues. The $369,000 of non-cash expense was derived from taking the imputed interest on the Three Peaks agreement less the actual cash payment made to Three Peaks for the six months. Other than the $369,000 non-cash expense, the remaining $1,650,000 in interest expense for the six months ended June 30, 2015 is related to cash paid for interest on the Term Loan with Three Peaks.

The Company records interest using its best estimate of the effective interest rate. This estimate takes into account both the rate on the Term Loan Agreement and the rate associated with the 10 year Revenue Interest Agreement with Three Peaks. The effective interest rate is based on actual payments to date, projected future revenues and the projected royalty payments and the quarterly interest payments due on the Term Loan Agreement. From time to time, AxoGen 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. Determination of these assumptions is highly subjective and different assumptions could lead to materially different outcomes.

The Company had no material commitments for capital expenditures at June 30, 2015. However, it is anticipated that the Company will have approximately $400,000 of capital expenditures for the placement of equipment and build-out at CTS over the next two quarters.

Public Offering of Common Stock

On February 5, 2015, AxoGen entered into the Underwriting Agreement with the Underwriter, in connection with the offering, issuance and sale (the "Offering") of 4,728,000 shares of the Company's common shares, par value $0.01 per share (the "Common Shares"), at a price to the public of $2.75 per share. The Company also granted to the Underwriter a 30-day option to purchase up to an aggregate of 709,200 additional Common Shares to cover over-allotments, if any.

The Offering was made pursuant to the Company's effective shelf registration statement on Form S-3 (Registration No. 333-195588) previously filed with the Securities and Exchange Commission, and pursuant to the prospectus supplement and the accompanying prospectus describing the terms of the Offering, dated February 5, 2015.

As of February 13, 2015, the Offering was completed with the sale of 5,437,200 Common Shares, which included the exercise of the over-allotment option, at $2.75 per share resulting in gross proceeds to AxoGen from the Offering of approximately $15.0 million, before deducting underwriting discounts and commissions and other estimated offering expenses payable by AxoGen estimated at approximately $1.4 million. The Common Shares were listed on the NASDAQ Capital Market.

Cash Flow Information

AxoGen had working capital of approximately $19.82 million and a current ratio of 6.79 at June 30, 2015, compared to working capital of $11.97 million and a current ratio of 5.89 at December 31, 2014. The increase in working capital and the current ratio at June 30, 2015 as compared to December 31, 2014 was primarily due to the public offering in February. In February 2015 AxoGen completed a public offering of 5,437,200 shares of Common Stock at $2.75 per share resulting in gross proceeds to AxoGen from the offering of approximately $15.0 million, before deducting underwriting discounts and commissions and other estimated offering expenses payable by AxoGen estimated at approximately $1.4 million. 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, continued adoption of our products by surgeons and growth of our revenues, continued expansion and development of our direct sales force, expenses associated with our professional education programs, maintaining our gross margins, expenses related to our facilities for production and distribution of products and general market conditions. AxoGen could face increasing capital needs which could be substantial depending on the extent to which AxoGen is unable to increase revenues.

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 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, 2015, the Company had a net increase in cash and cash equivalents of approximately $7,407,000 as compared to a net decrease of cash and cash equivalents of approximately $5,899,000 in the six months ended June 30, 2014. The Company's principal sources and uses of funds are explained below:

Cash used in operating activities

The Company used approximately $6,011,000 of cash for operating activities in the six months ended June 30, 2015, as compared to using approximately $5,720,000 of cash for operating activities in the six months ended June 30, 2014. This increase in cash used in operating activities is primarily attributable to the increase in accounts receivable and inventory accompanied by the net loss generated in the six months ended June 30, 2015, offset by the increase in our accounts payable and accrued expenses.

Cash used for investing activities

Investing activities for the six months ended June 30, 2015 used approximately $187,000 of cash as compared to using approximately $314,000 of cash in the six months ended June 30, 2014. This decrease in use is principally attributable to the non recurrence of purchases of certain fixed assets for the expansion of the headquarters office and the opening of the worldwide distribution facility in Burleson, Texas that occurred in the period in 2014.

Cash provided by financing activities

Financing activities in the six months ended June 30, 2015 provided approximately $13,605,000 of cash as compared to providing approximately $134,000 of cash in the six months ended June 30, 2014. The increase was due to proceeds received from the public offering consummated in February 2015 compared to the exercise of stock options in the same period of 2014.

Off-Balance Sheet Arrangements

AxoGen does not have any off-balance sheet arrangements.

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, 2015 and concluded that our disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

During the six months ended June 30, 2015, 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.

UNITED STATES
PART II –OTHER INFORMATION

ITEM 1 – Legal Proceedings

The Company is not a party to any material litigation as of June 30, 2015.

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, 2014. 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.

ITEM 6 - EXHIBITS

Exhibit Number	Description
10.1	Commercial Lease dated April 21, 2015 by and between AxoGen Corporation and Ja-Cole, L.P. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on April 22, 2015).
10.2	Amendment No. 1 to Boone Business Park Commercial Lease dated April 21, 2015 by and between AxoGen Corporation and Ja-Cole, L.P. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on April 22, 2015).
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.

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 6, 2015	/s/ Karen Zaderej
	Karen Zaderej Chief Executive Officer (Principal Executive Officer)
	/s/ Gregory G. Freitag
	Gregory G. Freitag Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

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† Filed herewith.

†† Furnished herewith.

EXHIBIT 31.1

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 6, 2015

/s/ Karen Zaderej
Karen Zaderej
Chief Executive Officer

EXHIBIT 31.2

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

I, Gregory G. Freitag, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AxoGen, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2015

/s/ Gregory G. Freitag
Gregory G. Freitag
Chief Financial Officer

EXHIBIT 32

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

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2015

/s/ Karen Zaderej
Karen Zaderej
Chief Executive Officer
(Principal Executive Officer)

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