

**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 **September 30, 2020**

**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)

<b>Minnesota</b>	<b>41-1301878</b>
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
<b>13631 Progress Blvd., Suite 400, Alachua, FL</b>	<b>32615</b>
(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)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.01 par value	AXGN	The Nasdaq Stock Market

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 every Interactive Data File required to be submitted 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 such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 27, 2020, the registrant had 40,126,253 shares of common stock outstanding.

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### **Forward-Looking Statements**

From time to time, in reports filed with the U.S. Securities and Exchange Commission (the “SEC”) (including this Form 10-Q), in press releases, and in other communications to shareholders or the investment community, Axogen, Inc. (including Axogen, Inc.’s wholly owned subsidiaries, Axogen Corporation, Axogen Processing Corporation and Axogen Europe GmbH, the “Company”, “Axogen”, “we” or “our”) may provide forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, 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", "continue", "may", "should", "will", "goals", 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 our growth, product development, product potential, financial performance, sales growth, product adoption, market awareness of our products, data validation, our assessment of our internal controls over financial reporting, our visibility at and sponsorship of conferences and educational events. The forward-looking statements are and will be subject to risks and uncertainties, which may cause actual results to differ materially from those expressed or implied in such forward-looking statements. Such risks and uncertainties include, but are not limited to, risks and uncertainties caused by extraordinary events or circumstances, such as the COVID-19 pandemic, and their impact on our business and operations, the business and operations of our customers, suppliers and other business partners and economic conditions generally. Forward-looking statements contained 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 set forth in the Company’s filings with the SEC and other risk factors detailed from time to time as described in “Risk Factors” included in Item 1A of our Annual Filing on Form 10-K, as amended on Form 10-K/A. 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, except as required by applicable law, the Company assumes no responsibility to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise.

## PART 1 — FINANCIAL INFORMATION

## ITEM 1 — FINANCIAL STATEMENTS

**Axogen, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(unaudited)**  
**(In Thousands, Except Share and Per Share Amounts)**

	September 30, 2020	December 31, 2019
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 60,002	\$ 35,724
Restricted cash	7,607	6,000
Investments	39,126	60,786
Accounts receivable, net of allowance for doubtful accounts of \$478 and \$1,092, respectively	18,758	16,944
Inventory	11,929	13,861
Prepaid expenses and other	2,551	1,706
<b>Total current assets</b>	<b>139,973</b>	<b>135,021</b>
Property and equipment, net	36,110	14,887
Operating lease right-of-use assets	15,987	3,133
Finance lease right-of-use assets	70	87
Intangible assets	1,797	1,515
<b>Total assets</b>	<b>\$ 193,937</b>	<b>\$ 154,643</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 16,279	\$ 19,130
Current maturities of long-term lease obligations	2,499	1,736
Contract liabilities, current	14	14
<b>Total current liabilities</b>	<b>18,792</b>	<b>20,880</b>
Long-term Debt, net of financing fees	31,817	—
Debt derivative liability	2,450	—
Common stock derivative option liability	183	—
Long-term lease obligations	18,976	1,595
Long-term contract liabilities	6	15
<b>Total liabilities</b>	<b>72,224</b>	<b>22,490</b>
<b>Commitments and Contingencies - see Note 13</b>		
<b>Shareholders' equity:</b>		
Common stock, \$0.01 par value per share; 100,000,000 shares authorized; 40,123,841 and 39,589,755 shares issued and outstanding	401	396
Additional paid-in capital	318,949	311,618
Accumulated deficit	(197,637)	(179,861)
<b>Total shareholders' equity</b>	<b>121,713</b>	<b>132,153</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 193,937</b>	<b>\$ 154,643</b>

See notes to condensed consolidated financial statements.

**Axogen, Inc.**  
**Condensed Consolidated Statements of Operations**  
**(unaudited)**  
**(In Thousands, Except Share and Per Share Amounts)**

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<b>Revenues</b>	\$ 33,428	\$ 28,564	\$ 79,805	\$ 78,550
<b>Cost of goods sold</b>	5,697	4,510	16,118	12,468
<b>Gross profit</b>	27,731	24,054	63,687	66,082
<b>Costs and expenses:</b>				
Sales and marketing	17,726	18,245	49,854	53,146
Research and development	4,230	4,181	12,915	12,602
General and administrative	6,820	7,740	18,726	24,321
<b>Total costs and expenses</b>	28,776	30,166	81,495	90,069
<b>Loss from operations</b>	(1,045)	(6,112)	(17,808)	(23,987)
<b>Other income (expense):</b>				
Investment income	28	555	576	1,925
Interest expense	(397)	(7)	(459)	(32)
Change in fair value of derivatives	(71)	—	(71)	—
Other (expense)/income	6	(7)	(14)	(3)
<b>Total other income (expense), net</b>	(434)	541	32	1,890
<b>Net Loss</b>	\$ (1,479)	\$ (5,571)	\$ (17,776)	\$ (22,097)
Weighted average common shares outstanding — basic and diluted	40,093,588	39,340,492	39,873,167	39,151,218
Loss per common share — basic and diluted	\$ (0.04)	\$ (0.14)	\$ (0.45)	\$ (0.56)

*See notes to condensed consolidated financial statements.*

**Axogen, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited)**  
**(In Thousands)**

	<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (17,776)	\$ (22,097)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	993	631
Amortization of right-of-use assets	1,282	1,352
Amortization of intangible assets	111	89
Amortization of deferred financing fees	22	—
Provision for bad debt	(115)	(150)
Provision for inventory write-down	2,108	(44)
Changes in fair value of derivatives	71	—
Changes in investment gains and losses	(29)	(957)
Share-based compensation	5,725	7,384
Change in operating assets and liabilities:		
Accounts receivable	(1,700)	20
Inventory	(176)	(1,657)
Prepaid expenses and other	(844)	(1,099)
Accounts payable and accrued expenses	(911)	1,288
Operating lease obligations	(1,213)	(1,276)
Cash paid for interest portion of finance leases	(2)	(3)
Contract and other liabilities	(9)	(23)
<b>Net cash used in operating activities</b>	<b>(12,463)</b>	<b>(16,542)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(18,907)	(3,676)
Purchase of investments	(41,794)	(104,314)
Proceeds from sale of investments	63,483	122,071
Cash payments for intangible assets	(393)	(396)
<b>Net cash provided by investing activities</b>	<b>2,389</b>	<b>13,685</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the issuance of long-term debt	35,000	—
Proceeds from the paycheck protection program	7,820	—
Repayment of paycheck protection program	(7,820)	—
Payments for debt issuance costs	(642)	—
Payments of employee tax withholding in exchange of common stock awards	(665)	—
Cash paid for debt portion of finance leases	(10)	(24)
Proceeds from exercise of stock options	2,276	3,142
<b>Net cash provided by financing activities</b>	<b>35,959</b>	<b>3,118</b>
<b>Net increase in cash, cash equivalents, and restricted cash</b>	<b>25,885</b>	<b>261</b>
<b>Cash, cash equivalents, and restricted cash, beginning of period</b>	<b>41,724</b>	<b>30,294</b>
<b>Cash, cash equivalents and restricted cash, end of period</b>	<b>\$ 67,609</b>	<b>\$ 30,555</b>
<b>Supplemental disclosures of cash flow activity:</b>		
Cash paid for interest	\$ 379	\$ 31
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Acquisition of fixed assets in accounts payable and accrued expenses	\$ 1,271	\$ 684
Obtaining a right-of-use asset in exchange for a lease liability	\$ 14,119	\$ 26
Embedded derivative associated with the long-term debt	\$ 2,562	\$ —

See notes to condensed consolidated financial statements.

**Axogen, Inc.**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity**  
**(unaudited)**  
**(In Thousands, Except Share Amounts)**

	Common Stock		Paid-in Capital	Accumulated Deficit	Shareholders' Equity/(Deficit)
	Shares	Amount			
<b>Three Months Ended September 30, 2020</b>					
<b>Balance at June 30, 2020</b>	40,022,499	\$ 400	\$ 315,518	\$ (196,158)	\$ 119,760
Net Loss	-	-	-	(1,479)	(1,479)
Stock-based compensation	-	-	2,947	-	2,947
Issuance of restricted and performance stock units	22,529	-	-	-	-
Shares surrendered by employees to pay tax withholdings	(1,230)	-	(8)	-	(8)
Exercise of stock options and employee stock purchase plan	80,043	1	492	-	493
<b>Balance at September 30, 2020</b>	<u>40,123,841</u>	<u>\$ 401</u>	<u>\$ 318,949</u>	<u>\$ (197,637)</u>	<u>\$ 121,713</u>
<b>Nine Months Ended September 30, 2020</b>					
<b>Balance at December 31, 2019</b>	39,589,755	\$ 396	\$ 311,618	\$ (179,861)	\$ 132,153
Net Loss	-	-	-	(17,776)	(17,776)
Stock-based compensation	-	-	5,725	-	5,725
Issuance of restricted and performance stock units	168,311	2	(2)	-	-
Shares surrendered by employees to pay tax withholdings	(38,086)	(1)	(664)	-	(665)
Exercise of stock options and employee stock purchase plan	403,861	4	2,272	-	2,276
<b>Balance at September 30, 2020</b>	<u>40,123,841</u>	<u>\$ 401</u>	<u>\$ 318,949</u>	<u>\$ (197,637)</u>	<u>\$ 121,713</u>
<b>Three Months Ended September 30, 2019</b>					
<b>Balance at June 30, 2019</b>	39,252,294	\$ 393	\$ 304,819	\$ (167,252)	\$ 137,960
Net Loss	-	-	-	(5,571)	(5,571)
Stock-based compensation	-	-	2,397	-	2,397
Issuance of restricted and performance stock units	3,312	-	-	-	-
Exercise of stock options and employee stock purchase plan	205,712	2	623	-	625
<b>Balance at September 30, 2019</b>	<u>39,461,318</u>	<u>\$ 395</u>	<u>\$ 307,839</u>	<u>\$ (172,823)</u>	<u>\$ 135,411</u>
<b>Nine Months Ended September 30, 2019</b>					
<b>Balance at December 31, 2018</b>	38,900,875	\$ 389	\$ 297,319	\$ (150,726)	\$ 146,982
Net Loss	-	-	-	(22,097)	(22,097)
Stock-based compensation	-	-	7,384	-	7,384
Issuance of restricted and performance stock units	41,340	-	-	-	-
Exercise of stock options and employee stock purchase plan	519,103	6	3,136	-	3,142
<b>Balance at September 30, 2019</b>	<u>39,461,318</u>	<u>\$ 395</u>	<u>\$ 307,839</u>	<u>\$ (172,823)</u>	<u>\$ 135,411</u>

See notes to condensed consolidated financial statements.

**Axogen, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**  
**(In Thousands, Except Per Share Amounts)**

Unless the context otherwise requires, all references in these Notes to “Axogen,” “the Company,” “we,” “us” and “our” refer to Axogen, Inc. and its wholly owned subsidiaries Axogen Corporation (“AC”), Axogen Processing Corporation, and Axogen Europe GmbH.

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company as of September 30, 2020 and December 31, 2019 and for the three and nine-month periods ended September 30, 2020 and 2019. The Company’s condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and therefore, do not include all information and footnotes necessary for a fair presentation of consolidated financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) and should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2019, which are included in the Company’s Annual Report on Form 10-K as of and for the year ended December 31, 2019, as amended on Form 10-K/A.

The interim condensed consolidated financial statements are unaudited and in the opinion of management, reflect all adjustments, consisting only of normal recurring 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 intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the three and nine-months ended September 30, 2020 are not necessarily indicative of the results to be expected for the full fiscal year due primarily to the impact of the continued uncertainty of general economic conditions that may impact our markets for the remainder of fiscal year 2020. Specifically, we are uncertain of the extent to which the Coronavirus Disease 2019 (“COVID-19”) pandemic will affect our sales channels, supply chain, manufacturing, distribution capabilities, clinical trials, employee availability and productivity and capital expenditures. The Company’s access to healthcare facilities has improved each month, although restrictions remain and supporting customers remotely continues to be an important learned capability. There can be no assurances that resurgences of COVID-19 will not affect our future results.

**2. Summary of Significant Accounting Policies**

**Credit Losses**

On January 1, 2020, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology.

The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for loans and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaces the multiple existing impairment models previously used under U.S. generally accepted accounting principles, which generally require that a loss be incurred before it is recognized. The new standard also applies to financial assets arising from revenue transactions such as contract assets and accounts receivables. The adoption did not have a material impact on our condensed consolidated financial statements.

Credit losses for trade receivables is determined based on historical information, current information and reasonable and supportable forecasts. We have concluded that the adoption of the standard was not material as the composition of the trade receivables at the reporting date is consistent with that used in developing the historical credit-loss percentages. Further, the risk characteristics of the Company’s customer and composition of the portfolio have not changed significantly over time.



### **Fair Value Measurements**

On January 1, 2020, the Company adopted ASU 2018-13, Fair Value Measurements (Topic 820) Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 changes the fair value measurement disclosure requirements of ASC 820, "Fair Value Measurement" by adding, eliminating, and modifying certain disclosure requirements. The adoption of ASU 2018-13 did not have a material impact on the Company's consolidated financial statements.

### **Cloud Based Arrangements**

On January 1, 2020, the Company adopted ASU No. 2018-15, Guidance on Cloud Computing Arrangements. ASU 2018-15 provides guidance on implementation costs incurred in a cloud computing arrangement ("CCA") that is a service contract and aligns the accounting for such costs with the guidance on capitalizing costs associated with developing or obtaining internal-use software. More specifically, the ASU 2018-15 provides guidance on accounting for implementation, set-up and other upfront costs incurred in a CCA hosted by a vendor. As of January 1, 2020, this standard did not have a material impact on the Company's consolidated financial statements.

### **Reference Rate Reform**

On March 12, 2020, the FASB issued ASU 2020-04, Reference Rate Reform (ASC 848). The ASU also establishes (1) a general contract modification principle that entities can apply in other areas that may be affected by reference rate reform and (2) certain elective hedge accounting expedients. The elective contract modification guidance in the ASU applies to "contracts or other transactions that reference [LIBOR] or a reference rate that is expected to be discontinued as a result of reference rate reform" (an "affected rate"). The optional amendments are effective for all entities as of March 12, 2020 through December 31, 2020. As of September 30, 2020, this standard did not have a material impact on the Company's consolidated financial statements.

### **Derivative Instruments**

Company analyzes all financial instruments with features under ASC 480, "Distinguishing Liabilities from Equity" and ASC 815, "Derivatives and Hedging". The Company records liability classified equity contracts at fair value at the issuance and recorded as a liability. The Company also reviews debt agreements for embedded features. If these features are not clearly and closely related to the debt host, they meet the definition of a derivative and require bifurcation from the host. All derivative instruments are recorded on the balance sheet at their respective fair values. The Company will adjust the carrying value of the derivative liability to fair value at each subsequent reporting date. The changes in the value of the derivatives are recorded in the consolidated statement of operations in the period in which they occur.

### **Revenue Recognition**

The Company enters into contracts to sell and distribute products and services to hospitals and surgical facilities for use in caring for patients with peripheral nerve damage or transection. Revenue is recognized when the Company has met its performance obligations pursuant to its contracts with its customers in an amount that the Company expects to be entitled to in exchange for the transfer of control of the products and services to the Company's customers.

In the case of products or services sold to a customer under an international distribution or purchase agreement, the distributors are granted exclusive distribution rights to sell the products or services in an international territory defined by the contract. These international distributor agreements contain provisions that allow the Company to terminate the distribution agreement with the distributor, and upon termination, the right to repurchase inventory from the distributor at the distributor's cost. The Company has determined that its contractual rights to repurchase international distributor inventory upon termination of such distributor agreement are not substantive and do not impact the timing of when control transfers; and, therefore, the Company has determined it is appropriate to recognize revenue when: i) the product is shipped via common carrier; or ii) the product is delivered to the customer or distributor, depending on the terms of the agreement. Determining the timing of revenue recognition for such contracts is subject to significant judgment, because an evaluation

must be made regarding the international distributor's ability to direct the use of, and obtain substantially all of the remaining benefits from, the implants received from the Company. Changes in these assessments could have a significant impact on the timing of revenue recognition from sales to distributors.

A portion of the Company's product revenue is generated from consigned inventory maintained at hospitals and domestic independent sales agencies, and also from inventory physically held by field sales representatives. For these types of product sales, the Company retains control until the product has been used or implanted, at which time revenue is recognized.

The Company elected to account for shipping and handling activities as a fulfillment cost rather than a separate performance obligation. Amounts billed to customers for shipping and handling are included as part of the transaction price and recognized as revenue when control of the underlying products is transferred to the customer. The related shipping and freight charges incurred by the Company are included in the cost of sales.

The Company operates in a single reportable segment of peripheral nerve repair, offers similar products to its customers, and enters into consistently structured arrangements with similar types of customers. As such, the Company does not disaggregate revenue from contracts with customers as the nature, amount, timing and uncertainty of revenue and cash flows does not materially differ within and among the contracts with customers.

The contract with the customer states the final terms of the sale, including the description, quantity, and price of each implant distributed. The payment terms and conditions in the Company's contracts vary; however, as a common business practice, payment terms are typically due in full within 30 to 60 days of delivery. Since the customer agrees to a stated price in the contract that does not vary over the contract term, the contracts do not contain any material types of variable consideration, and contractual rights of return are not material.

The Company has several contracts with distributors in international markets which include consideration paid to the customer in exchange for distinct marketing and other services. The Company records such consideration paid to the customer as a reduction to revenue from the contracts with those distributor customers.

In connection with the Acroval<sup>®</sup> Neurosensory and Motor Testing System, a product previously offered by the Company, the Company sold extended warranty and service packages to certain customers, and the prepayment of these extended warranties represent contract liabilities until the performance obligations are satisfied ratably over the term of the contract. The sale of the aforementioned extended warranty represents the only performance obligation the Company satisfies over time and creates the contract liability disclosed below.

The opening and closing balances of the Company's contract receivables and liabilities are as follows:

	<b>Contract Balances</b>			
	<b>Net Receivables</b>	<b>Contract Liabilities, Current</b>	<b>Contract Liabilities, Long- Term</b>	
Opening, January 1, 2019	\$ 15,321	\$ 18	\$ 42	
Closing, September 30, 2019	15,451	14	22	
Increase (decrease)	130	(4)	(20)	
Opening, January 1, 2020	\$ 16,944	\$ 14	\$ 15	
Closing, September 30, 2020	18,758	14	6	
Increase (decrease)	1,814	-	(9)	

#### **Loss Per Share of Common Stock**

Basic and diluted net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Since the Company has experienced net losses for all periods presented, options and

awards of 5,496,833 and 4,584,991 shares which were outstanding as of September 30, 2020 and 2019, respectively, were not included in the computation of diluted net loss per share because they are anti-dilutive.

### 3. Recently Issued Standards to be Adopted

In October 2020, the FASB issued ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs. The guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is not permitted. We are currently evaluating the impact the standard may have on our consolidated financial statements and related disclosures.

### 4. Inventory

Inventories are comprised of unprocessed tissue, work-in-process, Avance® Nerve Graft, Axoguard® Nerve Connector, Axoguard® Nerve Protector, Axoguard® Nerve Cap, Avive® Soft Tissue Membrane, Acroval® Neurosensory and Motor Testing System, Axotouch® Two-Point Discriminator and supplies and are valued at the lower of cost (first-in, first-out) or net realizable value and consist of the following:

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Finished goods	\$ 8,339	\$ 10,403
Work in process	798	730
Raw materials	2,792	2,728
<b>Inventories</b>	<u>\$ 11,929</u>	<u>\$ 13,861</u>

The Company monitors the shelf life of its products and historical expiration and spoilage trends and writes-down inventory based on the estimated amount of inventory that may not be distributed before expiration or spoilage. For the nine months ended September 30, 2020 and 2019, the Company had adjustments to the provision for inventory write downs of \$2,108 and (\$44) respectively.

### 5. Fair Value Considerations

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy defines a three-level valuation hierarchy for classification and disclosure of fair value measurements as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company classifies cash equivalents and investments according to the hierarchy of techniques used to determine fair value based on the types of inputs. The Company has elected the Fair Value Option for all investments in debt securities.

On June 30, 2020, the Company entered into the Oberland Facility (see Note 10 Long Term Debt), concluding that the term debt instrument included certain embedded features that required separate accounting (the “Debt Derivative Liability”) and that the equity contract entered into concurrently was required to be classified as a liability and recorded at its fair value (the “Common Stock Derivative Option Liability”). These instruments were determined to be financial liabilities requiring Level 3 fair value measurements.

*Debt Derivative Liability*

The debt derivative liability was measured using a ‘with and without’ valuation model to compare the fair value of the Oberland Facility including the identified embedded derivative features and the fair value of a plain vanilla note with the same terms. The fair value of the Oberland Facility including the embedded derivative features was determined using a probability-weighted expected return model (“PWERM”) based on four potential settlement scenarios for the Oberland Facility due to a mandatory prepayment event between January 1, 2024 and June 30, 2027; (a) the prepayment of the Oberland Facility at the Company’s option; and (b) the repayment of the Oberland Facility at its maturity in accordance with the terms of the debt agreement. The estimated settlement value of each scenario, which would include any required make-whole payment (see Note 10 Long Term Debt) is then discounted to present value using a discount rate that is derived based on the initial terms of the Oberland Facility at issuance and corroborated utilizing a synthetic credit rating analysis.

The significant inputs that are included in the valuation of the debt derivative liability include:

	<b>September 30, 2020</b>
<b>Input</b>	
Remaining term (years)	6.75 years
Maturity date	June 30, 2027
Coupon rate	9.50%
Revenue participation payments	Maximum each year
Discount rate	10.03% <sup>(1)</sup>
Probability of mandatory prepayment before 2024	5.0% <sup>(1)</sup>
Estimated timing of mandatory prepayment event before 2024	December 31, 2023 <sup>(1)</sup>
Probability of mandatory prepayment 2024 or after	15.0% <sup>(1)</sup>
Estimated timing of mandatory prepayment event 2024 or after	March 31, 2026 <sup>(1)</sup>
Probability of optional prepayment event	5.0% <sup>(1)</sup>
Estimated timing of optional prepayment event	December 31, 2025 <sup>(1)</sup>

(1) Represents a significant unobservable input

*Common Stock Derivative Option Liability*

The common stock option liability was measured using a Monte Carlo simulation model to simulate the future changes in the Company’s common stock price from the issuance date of the option agreement through the termination date of the option agreement. The 45-day volume weighted average price (“VWAP”) (see Note 10 Long Term Debt) is calculated for each simulation trial to determine the effective exercise price and number of common shares to be issued. The model assumes the holder will only exercise the option if the common stock is in the money on the exercise date. The value of the option is then determined based on the number of shares to be issued and the stock price on the date that the option is exercised. This option value is then discounted back to present value. The calculated present value of the option is then estimated using the average of 100,000 trials of the simulation model.

The significant inputs that are included in the valuation of the common stock option liability include:

	<b>September 30, 2020</b>
<b>Input</b>	
Option term	6.75 years
Company stock price	\$ 11.63
Risk free rate	0.45%
Equity volatility	60% <sup>(1)</sup>
Simulation trials	100,000

(1) Represents a significant unobservable input

The following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2020:

	(Level 1)	(Level 2)	(Level 3)	Total
<b>September 30, 2020</b>				
<b>Assets:</b>				
Money market funds	\$ 39,112	\$ —	\$ —	\$ 39,112
U.S. government securities	4,520	—	—	4,520
Corporate bonds	—	6,441	—	6,441
Commercial paper	—	28,165	—	28,165
Asset-backed securities	—	—	—	—
Total assets	<u>\$ 43,632</u>	<u>\$ 34,606</u>	<u>\$ —</u>	<u>\$ 78,238</u>
<b>Liabilities</b>				
Debt derivative liability	\$ —	\$ —	\$ 2,450	\$ 2,450
Common stock derivative option liability	—	—	183	183
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,633</u>	<u>\$ 2,633</u>

	(Level 1)	(Level 2)	(Level 3)	Total
<b>December 31, 2019</b>				
<b>Assets:</b>				
Money market funds	\$ 26,812	\$ —	\$ —	\$ 26,812
U.S. government securities	4,544	—	—	4,544
Corporate bonds	—	17,754	—	17,754
Commercial paper	—	24,679	—	24,679
Asset-backed securities	—	13,808	—	13,808
Total assets	<u>\$ 31,356</u>	<u>\$ 56,241</u>	<u>\$ —</u>	<u>\$ 87,597</u>

There were no changes in the levels or methodology of the measurement of financial assets or liabilities during the three and nine months ended September 30, 2020. The maturity date of the Company's investments is less than one year.

The following represents the rollforward of the fair value of instruments classified as Level 3 measurements for the three and nine months ended September 30, 2020:

<b>Quarter Ending September 30, 2020</b>	
Beginning Balance, July 1, 2020	\$ 2,562
Change in fair value of option derivative	11
Change in fair value of debt derivative	60
Ending Balance, September 30, 2020	<u>\$ 2,633</u>
<b>Year Ending December 31, 2020</b>	
Beginning Balance	\$ —
Option to purchase shares	183
Fair Value of Derivative Feature	2,450
Ending Balance, September 30, 2020	<u>\$ 2,633</u>

## 6. Prepaid Expense and Other

Prepaid and other assets consist of the following:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Prepaid insurance	\$ 539	\$ —
Stock option receivable	—	244
Litigation receivable	23	98
Prepaid events	493	110
Prepaid marketing	480	227
Prepaid software license	135	207
Prepaid professional fees	529	433
Other Prepaid items	352	387
<b>Prepaid and Other Assets</b>	<u>\$ 2,551</u>	<u>\$ 1,706</u>

Our policy year for our insurance runs on a calendar year and as such a significant portion of the policy payment is made at the beginning of the new year and amortized to expense throughout the remaining year.

## 7. Property and Equipment

Property and equipment consist of the following:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Furniture and equipment	\$ 2,236	\$ 2,059
Leasehold improvements	12,223	2,203
Processing equipment	2,887	2,772
Land	731	731
Projects in process	<u>22,790</u>	<u>10,886</u>
<b>Property and equipment, at cost</b>	40,867	18,651
Less: accumulated depreciation and amortization	<u>(4,757)</u>	<u>(3,764)</u>
<b>Property and equipment, net</b>	<u>\$ 36,110</u>	<u>\$ 14,887</u>

Depreciation expense for the three months ended September 30, 2020 and 2019 was \$74 and \$192, respectively. Depreciation expense for the nine months ended September 30, 2020 and 2019 was \$993 and \$631, respectively. The significant increase in projects in process is related to our Axogen Processing Center (“APC”) facility (See Note 13 Commitments and Contingencies).

On September 20, 2018, the Company entered into an agreement (the “Heights Agreement”) with Heights Union, LLC, a Florida limited liability company (“Heights Union”), for the lease of seventy-five thousand square feet of office space (the “Heights Union Premises”) in Tampa, Florida (See Note 13 Commitments and Contingencies). In May 2020, the Company entered into a construction escrow agreement (the “Escrow Agreement”) with Heights Union and Commonwealth Land Title Insurance Company (“Escrow Agent”) which provided for the establishment of a federally insured escrow bank account (the “Escrow Account”) to hold Company funds to be used for tenant improvements in excess of the tenant allowance as provided in the Heights Agreement. The Company deposited \$6,289 into the Escrow Account for use in completing construction of the tenant improvements. The Escrow Agent will disburse the funds upon joint written instructions from Heights Union and the Company. During the three months and nine months ended September 30, 2020, \$3,464 and \$4,682, respectively, was disbursed from the Escrow Account and recorded in property and equipment account of the balance sheet. The Company anticipates depleting the Escrow Account by November 2020. As

of September 30, 2020, \$1,607 remained in the Escrow Account and is recorded as restricted cash in the condensed consolidated balance sheet.

**8. Intangible Assets**

The Company's intangible assets consist of the following:

	September 30, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortized intangible assets</b>						
Patents	\$ 1,201	\$ (122)	\$ 1,079	\$ 845	\$ (84)	\$ 761
License agreements	1,089	(720)	369	1,067	(647)	420
<b>Total amortizable intangible assets</b>	<b>\$ 2,290</b>	<b>\$ (842)</b>	<b>\$ 1,448</b>	<b>\$ 1,912</b>	<b>\$ (731)</b>	<b>\$ 1,181</b>
<b>Unamortized intangible assets</b>						
Trademarks	\$ 349	\$ —	\$ 369	\$ 334	\$ —	\$ 334
<b>Total intangible asset, net</b>	<b>\$ 2,639</b>	<b>\$ (842)</b>	<b>\$ 1,797</b>	<b>\$ 2,246</b>	<b>\$ (731)</b>	<b>\$ 1,515</b>

License agreements are being amortized over periods ranging from 17-20 years. Patent costs are being amortized over periods up to 20 years. Amortization expense was approximately \$39 and \$33 for the three months ended September 30, 2020 and 2019, respectively. Amortization was approximately \$111 and \$89 for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, future amortization of license agreements and patents are as follows:

<b>Year Ending December 31,</b>	
2020 (excluding nine months ended September 30, 2020)	\$ 40
2021	160
2022	160
2023	151
2024	67
Thereafter	870
<b>TOTAL</b>	<b>\$ 1,448</b>

**License Agreements**

The Company has entered into multiple license agreements (together, the "License Agreements") with the University of Florida Research Foundation and the University of Texas at Austin. 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 \$12.5 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 sublicense 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 the University of Texas at Austin’s agreement, Axogen would owe a milestone fee of \$ 15 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. A milestone fee to the University of Florida Research Foundation of \$125 is due if Axogen receives FDA approval of its Avance Nerve Graft, a milestone fee of \$ 25 is due upon the first commercial use of certain licensed technology to provide services to manufacture products for third parties and a milestone fee of \$10 is due upon the first use to manufacture products that utilize certain technology that is not currently incorporated into Axogen products.

Royalty fees were approximately \$701 and \$577 during the three months ended September 30, 2020 and 2019, respectively, and approximately \$1,635 and \$1,573 during the nine months ended September 30, 2020 and 2019, respectively, and are included in sales and marketing expense on the accompanying condensed consolidated statements of operations.

**9. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following:

	September 30, 2020	December 31, 2019
Accounts payable	\$ 3,507	\$ 8,262
Accrued expenses	3,091	3,237
Accrued compensation	9,681	7,631
<b>Accounts Payable and Accrued Expenses</b>	<b>\$ 16,279</b>	<b>\$ 19,130</b>

**10. Long Term Debt**

On June 30, 2020, the Company entered into a seven-year financing agreement with Oberland Capital (the “Oberland Facility”) and obtained the first tranche of \$35,000 at closing. The Oberland Facility provides for a total of \$75,000 through two additional tranches that can be drawn by December 31, 2021 and requires interest-only payments for the duration of the term. A second tranche of \$ 15,000 may be drawn at the Company’s option upon achieving two consecutive quarters with revenue of at least \$20,000. Such second tranche may also be put to the Company at any time by Oberland Capital. A third tranche of \$25,000 may be drawn at the Company’s option upon achieving two consecutive quarters with revenue of \$28,000. The financing costs for this facility are approximately \$642 and will be recorded as a contra liability to the debt facility. As of September 30, 2020, the Company has paid all of the financing costs.

The Oberland Facility requires quarterly interest payments for seven years. Interest is calculated as 7.5% plus the greater of LIBOR or 2.0% (9.5% as of September 30, 2020). Each tranche of the Oberland Facility, if and when issued, will have a term of seven years from the date of issuance (with the first tranche issued on June 30, 2020 maturing on June 30, 2027). In connection with the Oberland Facility, the Company entered into a revenue participation agreement with Oberland Capital, which provides that, among other things, an additional quarterly royalty payment as a percentage of the Company’s net revenues, up to \$70 million in any given fiscal year, subject to certain limitations set forth therein, during the period commencing on the later of (i) April 1, 2021 and (ii) the date of funding of a tranche of the loan, and ending on the date upon which all amounts owed under the Oberland Facility have been paid in full (the “Revenue Participation Agreement”). Payments will commence on September 30, 2021. This royalty structure results in approximately 1.0% per year of additional interest payments on the outstanding loan amount. For the three months ended September 30, 2020, the



Company paid \$858 of interest to Oberland for this debt facility. The Company capitalized approximately \$489 of the interest towards the costs to construct and retrofit its Axogen Processing Center in Vandalia, OH (See Note 13 Commitments and Contingency). The capitalized interest is recorded as part of property and equipment in the consolidated balance sheet.

Additionally, Oberland Capital has the right to purchase up to \$3,500 worth of Axogen common stock from Axogen in one transaction at any time after closing of the Oberland Facility until the later of (i) the date all amounts due under the Oberland Facility are repaid and (ii) June 30, 2027 (the "Oberland Option"). The purchase price of the common stock will be calculated based on the 45-day moving average of the closing stock price on the day prior to the purchase. In the event that Oberland Capital exercises the Oberland Option and is issued common stock, Oberland Capital will receive certain protective rights (including protection from down-round stock issuances) for a period of one year subsequent to the issuance. The Company is also required to register the shares underlying the Oberland Option on a 'best-efforts' basis.

The amounts outstanding under the Oberland Facility may be accelerated upon certain events, including: (a) required mandatory prepayments upon an asset sale; (b) in the event Axogen is subject to (i) any litigation brought by a Governmental Authority (as defined in the Oberland Facility) including intervention after litigation is commenced by a Person (as defined in the Oberland Facility ), or (ii) any final administrative action by a Governmental Authority, in each case arising out of or in connection with any of the Company's registry studies, payments made to doctors or training activities with respect to healthcare professionals (excluding certain final administrative action that have been fully and finally resolved by the parties pursuant to a settlement agreement) or (c) upon the occurrence of an event of default (either automatically or at the option of Oberland Capital depending on the nature of the event). In addition, the Company has the right to prepay any amounts outstanding under the Oberland Facility. Upon maturity or upon such earlier repayment of the Oberland Facility, the Company will repay the principal balance and provide a make-whole payment calculated to generate an internal rate of return ("IRR") to Oberland Capital of at least 11.5%, less the total of all quarterly interest and royalty payments previously paid to Oberland Capital.

Upon the occurrence of an event of default, the interest rate incurred on amounts outstanding under the Oberland Facility will be increased by 4%. The Oberland Facility includes a financial covenant requiring the Company to achieve revenue targets of \$8,750 for the third and four quarters of 2020, \$17,500 for the first and second quarter of 2021 and \$20,000 for each quarter thereafter. In the event of a failure to meet such covenant the Company may avoid a default by electing to be subject to a liquidity covenant and meeting all of the obligations required by such covenant. Specifically, the liquidity covenant provides that the Company must maintain on deposit in a cash collateral account an amount not less than 1.1 times the aggregate outstanding principal balance of all outstanding loan amounts. The borrowings under the Oberland Facility are secured by substantially all of the assets of the Company. As of September 30, 2020, the Company was in compliance with the minimum revenue covenant.

#### *Accounting Considerations*

The Company assessed the accounting impact of the Oberland Facility and the related agreements entered into with Oberland Capital. The Company concluded that the Oberland Facility and the Revenue Participation Agreement should be assessed on a combined unit of account basis (with the Revenue Participation Agreement being considered as an embedded feature with the Oberland Facility), and that the Oberland Option should be considered as a separate freestanding instrument for analysis purposes.

In relation to the Oberland Facility and Revenue Participation Agreement, the Company assessed the identified embedded features to determine if they would require separate accounting. In performing this assessment, the Company concluded the following embedded features met the definition of a derivative and would not be considered clearly and closely related to the debt instrument, requiring separate accounting as bifurcated derivatives:

- Mandatory prepayments upon an asset sale or litigation involving the government, including the make-whole payment (put rights)
- Optional or automatic prepayment upon an event of default (put rights)
- Payments under the Revenue Participation Agreement (contingent interest feature)
- Additional interest upon events of default (contingent interest feature)

The Company considered these separable embedded features on a combined basis as a single derivative feature. The Company estimated the fair value of these features as \$2,387 as of the date of issuance of the Oberland Facility (see Note 5 Fair Value Considerations) and recorded this value as a deduction to the carrying value of the Oberland Facility.

In relation to the Oberland Option, the Company concluded that the equity contract met the definition of a derivative and did not qualify for an exception from derivative accounting. As such, the Company concluded that the Oberland Option should be classified as a liability. The Company estimated the fair value of the Oberland Option as \$176 as of the date of issuance of the Oberland Facility (see Note 5 Fair Value Considerations) and recorded this value as a deduction to the carrying value of the Oberland Facility. As of September 30, 2020, the carrying amount of the long-term debt reported in the consolidated balance sheet approximates fair value using Level 2 inputs in the fair value hierarchy. Fair values are generally estimated based on quoted market prices for similar instruments.

The following represents the components of the net carrying value of the Oberland Facility at September 30, 2020:

	<b>September 30, 2020</b>			
	<b>Principal Balance</b>	<b>Debt Discount</b>	<b>Debt Issuance Costs, Net</b>	<b>Long-term Debt, Net</b>
Oberland facility	\$ 35,000	\$ (2,563)	(620)	31,817

#### *Other Long-Term Debt*

On April 23, 2020, the Company received a Small Business Administration (“SBA”) loan under the Paycheck Protection Program (“PPP”) in the amount of \$7,820. The loan was obtained pursuant to the original guidance of the SBA to preserve positions in the Company by providing necessary economic relief during this period of reduced surgical procedures because of the negative business effects of COVID-19. The Company believed it correctly applied for the loan, met the initial intent of the PPP program to preserve jobs and believed it complied with the representations provided in the loan documents. However, subsequent to obtaining the loan, the United States Treasury Department issued guidance, which the Company believes contradicts the original intent and language of the PPP, providing that public companies are unlikely to be able to meet the standards for receiving the PPP loan. As a result of this change, the Company believed it was in its best business interests to repay the loan and did so on May 5, 2020.

#### **11. Stock Incentive Plan**

At the 2019 Annual Meeting of Shareholders held on August 14, 2019, the shareholders approved the Axogen 2019 Long-Term Incentive Plan (the “New Axogen Plan”), which allows for issuance of incentive stock options, non-qualified stock options, performance stock units (“PSUs”) and restricted stock units (“RSUs”) to employees, directors and consultants at exercise prices not less than the fair market value at the date of grant. The number of shares of common stock authorized for issuance under the New Axogen Plan is (A) 3,385,482 shares, comprised of (i) 3,000,000 new authorized shares and (ii) 385,482 unallocated shares of common stock available for issuance as of August 14, 2019 pursuant to the Company’s 2010 Stock Incentive Plan, as amended and restated (the “Prior Axogen Plan”), that were not then subject to outstanding awards; plus (B) shares under the Prior Axogen Plan and the New Axogen Plan that are cancelled, forfeited, expired, unearned or settled in cash, in any such case that does not result in the issuance of common stock. Following shareholder approval of the New Axogen Plan, no future awards will be made under the Prior Axogen Plan. As of September 30, 2020, 1,807,299 shares of common stock were available for issuance under the New Axogen Plan.

The options granted to employees prior to July 1, 2017 typically vest 25% one year after the grant date and 12.5% every six months thereafter for the remaining three-year period until fully vested after four years. The options granted to employees after July 1, 2017 typically vest 50% two years after the grant date and 12.5% every six months thereafter for the remaining two-year period until fully vested after four years. The options granted to directors and certain options

granted from time to time to certain executive officers have vested ratably over three years, 25% per quarter over one year or had no vesting period. Options typically have terms ranging from seven to ten years.

Performance stock units generally have a requisite service period of three years and are subject to graded vesting conditions based on revenue goals of the Company. The Company expenses their fair value over the requisite service period. Restricted stock units have a requisite service period of four years. The Company expenses the fair value of restricted stock awards on a straight-line basis over the requisite service period.

In February 2020, the Company issued PSUs relating to a 2017 grant with performance metrics tied to 2019 revenue. The award was issued at 72.3% of achievement and therefore, 27.7% of the stock compensation, or \$536 relating to this grant was forfeited or reversed in the first quarter 2020. In addition, as a result of COVID-19 and the expected decline in revenue for 2020, it was determined that the 2018 PSU grant with performance metrics tied to 2020 revenue would not be awarded and therefore stock compensation related to these grants of \$1,161 was forfeited. In June 2020, the Company concluded that the performance metrics relating to the 2020 PSU grant with performance metrics tied to 2021 revenue were no longer probable and therefore stock compensation related to these grants of \$340 was also forfeited.

The New Axogen Plan allows an immediate share repurchase feature for tax withholding. The Company has a statutory obligation to withhold taxes on the employee's behalf and the tax withholding is limited to the maximum statutory tax rates in the employees' applicable jurisdictions. In the nine months ended September 30, 2020, employees surrendered 38,086 shares of RSU and PSU to the Company. As a result, the Company paid \$665 of tax withholdings for the employees.

The Company also maintains the Axogen 2017 Employee Stock Purchase Plan (the "2017 ESPP"), which allows eligible employees to acquire shares of the Company's common stock through payroll deductions at a discount to market price. A total of 600,000 shares of the Company's common stock are authorized for issuance under the 2017 ESPP, and, as of September 30, 2020, 373,066 shares remained available for issuance. In June 2020, the employees purchased 77,239 shares at \$7.85 through the 2017 ESPP plan.

The Company recognized stock-based compensation expense, which consisted of compensation expense related to employee stock options, PSUs, RSUs and the 2017 ESPP based on the value of share-based payment awards that are ultimately expected to vest during the period, as well as the adjustment mentioned above, of approximately \$2,947 and \$2,395 for the three months ended September 30, 2020 and 2019, respectively and approximately \$5,725 and \$7,384 for the nine months ended September 30, 2020 and 2019, respectively.

The Company estimates the fair value of each option award issued under such plans on the date of grant using a Multiple Point Black-Scholes option-pricing model which uses a weighted average of historical volatility and peer company volatility. The Company determines the expected life of each award 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.

A summary of the stock option activity is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding, December 31, 2019	3,420,181	\$ 12.69	5.7	\$ 26,074
Granted	647,090	\$ 9.19		
Exercised	(326,622)	\$ 5.22		
Cancelled	(103,586)	\$ 20.18		
Outstanding, September 30, 2020	3,637,063	\$ 12.52	5.93	\$ 10,901
Exercisable, September 30, 2020	2,127,093	\$ 9.78		\$ 9,125

The Company used the following weighted-average assumptions for options granted during the periods indicated:

Nine months ended September 30,	2020	2019
Expected term (in years)	5.69	5.76
Expected volatility	59.25 %	56.03 %
Risk free rate	0.35 %	1.54 %
Expected dividends	— %	— %

A summary of the status of non-vested RSUs/PSUs as of September 30, 2020 and the changes during the nine months then ended are presented below:

	Outstanding Stock Units			
	Stock Units	Weighted-Average Fair Value at Date of Grant per Share	Weighted Average Remaining Vesting Life	Aggregate Intrinsic Value (in thousands)
Unvested December 31, 2019	1,113,696	\$ 21.62	2.26	\$ 19,800
Granted	995,940	\$ 9.52		
Released	(168,311)	\$ 18.80		
Forfeited	(81,555)	\$ 18.91		
Unvested September 30, 2020	1,859,770	\$ 15.51	2.45	\$ 21,572
Vested and Expected to Vest	1,859,770	\$ 15.51		

At September 30, 2020, the total future stock compensation expense related to non-vested awards is expected to be approximately \$18,167.

## 12. 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 a 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, 2017 through 2019.

### 13. Commitments and Contingencies

#### Leases

The Company determines whether or not a contract contains a lease at the inception date and determines the lease classification, recognition and measurement at commencement date. The Company classifies a lease based on whether the arrangement is effectively a purchase of the underlying asset. Leases that transfer the control of the underlying asset are classified as finance leases and all others are classified as an operating lease. Interest and amortization expense are recognized for operating leases on a straight-lined basis. If a change to the lease term leads to a reassessment of the lease classification and remeasurement, assumptions such as the discount rate and variable rents based on a rate or index will be updated as of the remeasurement date. If an arrangement is modified, the Company will reassess whether the arrangement contains a lease. Any subsequent changes in lease payments are recognized when incurred, unless the change requires a remeasurement of the lease liability.

The Company made an accounting policy election to not recognize right-to-use assets and lease liabilities that arise from short term leases, which are defined as leases with a lease term of 12 months or less at the lease commencement date.

We lease office space, medical lab and research space, a distribution center, a tissue processing center and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Certain of our leases include options for the Company to extend the lease term. None of the options were reasonably certain of exercise and therefore are not included in the measure of our lease obligations and right-to-use assets.

Certain of our lease agreements include provisions for the Company to reimburse the lessor for common area maintenance, real estate taxes, and insurance, which the Company accounts for as variable lease costs. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company and Heights Union are parties to the Heights Agreement for the lease of seventy-five thousand square feet of office space in Tampa, Florida. Pursuant to the Heights Agreement, the Company will use the leased premises for general office, medical laboratory, training and meeting purposes. In September 2020, the Company began occupying the space. The lease includes a \$5,250 lessor allowance to be used towards the hard and soft costs of the tenant improvements. The Company will bear the cost of any tenant improvement in excess of this allowance. Total costs of the tenant improvements were approximately \$11,450. The Company concluded that it is the accounting owner of the tenant improvements. The lessor's allowance of \$5,250 for the construction of tenant improvements will be treated as an incentive. Because the Company is the accounting owner of the improvements, the lease incentive is accounted for as a reduction of the right-of-use asset and the total cost of the improvements of \$11,539 is recognized on the balance sheet separate from the right-of-use asset as leasehold improvements. The improvements will be amortized over the life of the lease, which was determined to be the shorter of the useful life of the improvements or the lease term. The Company determined the commencement date of the lease was August 28, 2020 and valued the lease using a 10.6% incremental borrowing rate. The Company recorded a right-of-use asset of \$13,323 and lease liability of \$18,573 for the new office lease as of the commencement date.

The components of total lease expense for the three and nine months ended September 30, 2020 were as follows:

	2020	2019
<b>For the Three months Ended September 30,</b>		
<b>Finance lease costs</b>		
Amortization of right-to-use assets	\$ 6	\$ 6
Interest on lease liabilities	1	1
<b>Operating lease costs</b>	<b>707</b>	<b>483</b>
Short term lease costs	43	12
Variable lease costs	4	1
Total lease cost	<u>\$ 761</u>	<u>\$ 501</u>
<b>For the Nine Months Ended September 30,</b>		
<b>Finance lease costs</b>		
Amortization of right-to-use assets	\$ 17	\$ 16
Interest on lease liabilities	2	3
<b>Operating lease costs</b>	<b>1,683</b>	<b>1,447</b>
Short term lease costs	104	28
Variable lease costs	14	16
Total lease cost	<u>\$ 1,820</u>	<u>\$ 1,510</u>

The short-term lease cost shown above reasonably reflects the Company's ongoing short-term lease commitment.

Supplemental balance sheet information related to leases as of September 30, 2020 and December 31, 2019 was as follows:

	September 30, 2020	December 31, 2019
<b>Finance Leases</b>		
Finance lease right-of-use assets	\$ 70	\$ 87
Current maturities of long-term obligations	\$ 18	\$ 17
Long term obligations	\$ 17	\$ 30
<b>Operating Leases</b>		
Operating lease right-of-use assets	\$ 15,987	\$ 3,133
Current maturities of long-term obligations	\$ 2,481	\$ 1,719
Long term obligations	\$ 18,959	\$ 1,565

Other information related to leases was as follows:

	2020	2019
<b>For the Nine Months Ended September 30,</b>		
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 1,399	\$ 1,314
Right-to-use assets obtained in exchange for new finance lease liabilities	\$ 16	\$ 16
Weighted-average remaining lease term - finance leases	2.3	3.2
Weighted-average remaining lease term - operating leases	12.4	2.1
Weighted-average discount rate - finance leases	7.28%	7.28%
Weighted-average discount rate - operating leases	10.07%	6.28%

The weighted-average discount rate for the majority of the Company's leases is based on the Company's estimated incremental borrowing rate since the rates implicit in the leases were not determinable. The Company's incremental borrowing rate is based on Management's estimate of the rate of interest the Company would have to pay to borrow on a fully collateralized basis over a similar term an amount equal to the lease payments.

Future minimum lease payments under non-cancellable leases as of September 30, 2020 were as follows:

<b>Year Ending December 31,</b>	<b>Operating Leases</b>	<b>Finance Leases</b>
2020 (excluding nine months ended September 30, 2020)	\$ 493	\$ 5
2021	3,212	19
2022	3,530	10
2023	2,545	3
2024	2,606	1
2025	2,671	—
Thereafter	26,126	—
Total Future Minimum Lease Payments	\$ 41,183	\$ 38
Less imputed interest on commenced leases	(19,743)	(3)
Total Lease Liability	<u>\$ 21,440</u>	<u>\$ 35</u>

### **Service Agreements**

On August 6, 2015, the Company entered into a License and Services Agreement (the “CTS Agreement”) with Community Blood Center (d/b/a Community Tissue Services) (“CTS”), Dayton, Ohio, an FDA registered tissue establishment. Processing of the Avance Nerve Graft pursuant to the CTS Agreement began in February 2016. The CTS Agreement initially had a five-year term ending August 31, 2020. On February 22, 2019, the agreement was amended to extend the term through December 31, 2021 and then on April 22, 2020 was further amended to extend the term through December 31, 2022 and provides the Company the right to terminate the agreement after February 28, 2022, with six-months advance written notice. Under the CTS Agreement, the Company pays CTS a facility fee for use of clean room/manufacturing, storage and office space, which the Company accounts for as an embedded lease in accordance with ASC 842, “Leases”. The Company also pays CTS for services in support of its manufacturing process such as for routine sterilization of daily supplies, providing disposable supplies, microbial services and office support. During the three months ended September 30, 2020 and 2019, the Company paid fees to CTS of approximately \$454 and \$566, respectively, and during the nine months ended September 30, 2020 and 2019, approximately \$1,193 and \$1,624, respectively, and are included in cost of goods sold on the accompanying condensed consolidated statements of operations.

In August 2008, the Company entered into an agreement with Cook Biotech to distribute the Axoguard products worldwide in the field of peripheral nerve repair, and the parties subsequently amended the agreement on February 26, 2018. Pursuant to the February 2018 amendment, the agreement expires on June 30, 2027. The Cook Biotech agreement requires certain minimum purchases, although, through mutual agreement, the parties have not established such minimums; and, to date, have not enforced such provision, and establishes a formula for the transfer cost of the Axoguard products. Under the agreement, Axogen provides purchase orders to Cook Biotech, and Cook Biotech fulfills the purchase orders.

In December 2011, the Company also entered into a Master Services Agreement for Clinical Research and Related Services. The Company was required to pay \$151 upon execution of this agreement and the remainder monthly based on activities associated with the execution of Axogen’s phase 3 pivotal clinical trial to support a biologics license application (“BLA”) for Avance Nerve Graft. In September 2019, the Company entered into an amendment to this agreement. The amendment extends the end of the study timeline from December 2019 to December 2021. It also increases the total number of subjects enrolled and the number of sites used in the studies. Payments made under this agreement were \$208 and \$196 for the three months ended September 30, 2020 and 2019, respectively. Payments made under this agreement were \$699 and \$337 for the nine months ended September 30, 2020 and 2019, respectively.

In June 2017, the Company entered into the Nerve End Cap Supply Agreement with Cook Biotech whereby Cook Biotech is the exclusive contract manufacturer of the Axoguard Nerve Cap and both parties have provided the other party the necessary licenses to their technologies for operation of the Supply Agreement. The Supply Agreement has a term through August 27, 2027, provided, however, that after June 27, 2022, either party may terminate the Supply Agreement

upon 90 days written notice. Under the Supply Agreement the Company provides purchase orders to Cook Biotech and Cook Biotech fulfills the purchase orders.

Certain executive officers of the Company are parties to employment contracts. Such contracts have severance payments for certain conditions including change in control.

### **Concentrations**

#### Vendor

Substantially all of Axogen's revenue is currently derived from four products, Avance Nerve Graft, Axoguard Nerve Protector, Axoguard Nerve Connector and Avive Soft Tissue Membrane. Axogen has an exclusive distribution agreement with Cook Biotech for the purchase of Axoguard which expires June 30, 2027. The agreement with Cook Biotech requires certain minimum purchases by Axogen, although, through mutual agreement, the parties have not established such minimums and to date have not enforced such provision and establishes a formula for the transfer cost of the Axoguard products.

The agreement allows for termination provisions for both parties. The loss of the ability to sell the Axoguard products could have a material adverse effect on Axogen's business until other replacement products would be available.

#### Processor

Axogen is highly dependent on the continued availability of its processing facilities at CTS in Dayton, Ohio and could be harmed if the physical infrastructure of this facility is unavailable for any prolonged period of time. In addition, disruptions could lead to significant costs and reductions in revenues, as well as a potential harm to Axogen's business reputation and financial results. In the event of disruption, Axogen believes it can find and make operational a new leased facility in less than six months, but the regulatory process for approval of facilities is time-consuming and unpredictable. Axogen's ability to rebuild or find acceptable lease facilities could take a considerable amount of time and expense and could cause a significant disruption in service to its customers. Although Axogen has business interruption insurance, which would cover certain costs, it may not cover all costs nor help to regain Axogen's standing in the market.

In July 2018, Axogen purchased a facility (the "APC") in Vandalia, Ohio, located near the CTS processing facility where Avance Nerve Graft and Avive Soft Tissue Membrane are currently processed. The APC, when and if operational, will be the new processing facility for Avance Nerve Graft and Avive Soft Tissue Membrane to provide continued capacity for growth and to support the transition of Avance Nerve Graft from a 361 HCT/P tissue product to a biologic product. The APC is comprised of a 70,000 square foot building on approximately 8.6 acres of land. The Company paid \$731 for the land and this is recorded as Land within our property and equipment account on our balance sheet. The Company paid \$4,300 for the building and this is recorded as projects in process as part of the property and equipment on the balance sheet.

On July 9, 2019, Axogen entered into a Standard Form of Agreement Between Owner and Design-Builder (the "Design-Build Agreement") with CRB Builders, L.L.C., a Missouri limited liability company ("CRB"), pursuant to which CRB will renovate and retrofit the APC. The Design-Build Agreement contains several design phase milestones that began in July 2019 and sets the date for Substantial Completion (as defined in the Design-Build Agreement) in the third quarter of 2020, subject to adjustment in accordance with the terms of the Design-Build Agreement. The estimated cost pursuant to the Design-Build Agreement is \$29,300. Additional costs associated with the renovation, purchasing of furniture and equipment, validation and certification of the APC are estimated to be \$13,600. The Company temporarily deferred the construction as part of the cost containment initiatives implemented in the second quarter, and has subsequently determined to resume construction in early 2021. As of September 30, 2020, the Company has recorded \$9,062 in the current year and \$15,127 to date related to renovations and design build in construction in progress. These items are recorded as projects in process as part of the property and equipment in its condensed consolidated balance sheet.



## **Litigation**

The Company is subject to various claims, lawsuits and proceedings in the ordinary course of the Company's business, some of which have been dismissed by the Company. In the opinion of management, such claims are either adequately covered by insurance or otherwise indemnified, or are not expected, individually or in the aggregate, to result in a material, adverse effect on the Company's financial condition. However, it is possible that the Company's results of operations, financial position and cash flows in a particular period could be materially affected by these contingencies.

Einhorn v. Axogen, Inc., et al., No. 8:19-cv-00069 (M.D. Fla.) (the "Einhorn Litigation") (the "Court").

On January 9, 2019, Plaintiff Neil Einhorn, on behalf of himself and others similarly situated, filed a putative class action complaint in the United States District Court for the Middle District of Florida alleging violations of the federal securities laws against Axogen, certain of its directors and officers ("Individual Defendants"), and (i) the several underwriters (the "2017 Offering Underwriters") named in that certain Underwriting Agreement, dated November 16, 2017, by and between the Company and Leerink Partners LLC, as representative of the several underwriters named therein, and (ii) the several underwriters (the "2018 Offering Underwriters") named in that certain Underwriting Agreement, dated May 8, 2018, by and between the Company and Jefferies LLC and Leerink Partners LLC, as representatives of the several underwriters named therein (the 2017 Offering Underwriters and 2018 Offering Underwriters, collectively, with the Individual Defendants, the "Defendants"), captioned Einhorn v. Axogen, Inc., et al., No. 8:19-cv-00069 (M.D. Fla.). Plaintiff asserts that Defendants made false or misleading statements in connection with the Company's November 2017 registration statement issued regarding its secondary public offering in November 2017 and May 2018 registration statement issued regarding its secondary public offering in May 2018, and during a class period of August 7, 2017 to December 18, 2018. In particular, Plaintiff asserts that Defendants issued false and misleading statements and failed to disclose to investors: (1) that the Company aggressively increased prices to mask lower sales; (2) that the Company's pricing alienated customers and threatened the Company's future growth; (3) that ambulatory surgery centers form a significant part of the market for the Company's products; (4) that such centers were especially sensitive to price increases; (5) that the Company was dependent on a small number of surgeons whom the Company paid to generate sales; (6) that the Company's consignment model for inventory was reasonably likely to lead to channel stuffing; (7) that the Company offered purchase incentives to sales representatives to encourage channel stuffing; (8) that the Company's sales representatives were encouraged to backdate revenue to artificially inflate metrics; (9) that the Company lacked adequate internal controls to prevent such channel stuffing and backdating of revenue; (10) that the Company's key operating metrics, such as number of active accounts, were overstated; and (11) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects, were materially misleading and/or lacked a reasonable basis. Axogen was served on January 15, 2019. On February 4, 2019, the court granted the parties' stipulated motion which provided that Axogen is not required to file a response to the complaint until thirty days after Plaintiff files a consolidated amended complaint. On June 19, 2019, Plaintiff filed an Amended Class Action Complaint, and on July 22, 2019, Defendants filed a motion to dismiss. Plaintiff filed opposing papers on August 12, 2019. The Court held a status hearing on September 11, 2019 and stayed all deadlines regarding the parties' obligations to file a case management report. On December 4, 2019 the parties' presented oral arguments. On April 21, 2020, the Court dismissed the Complaint without prejudice, finding the Plaintiff failed to state a claim upon which relief could be granted. The Plaintiff filed a Second Amended Class Action Complaint on June 22, 2020. Axogen filed a motion to dismiss on August 6, 2020. The Plaintiff filed an opposition to such dismissal on September 20, 2020. Both parties have requested to present oral arguments and await the Court's decision. Plaintiff is seeking compensatory damages, reimbursement of expenses and costs, including counsel and expert fees and such other relief as the court deems just and proper. The Company and Individual Defendants continue to dispute the allegations and intend to vigorously defend against any amended Complaint, if filed. The amount of loss, if any, cannot be reasonably estimated at this time.

Michael Bach v. Karen Zaderej, Peter J. Mariani, Gregory G. Freitag, Jamie M. Grooms, Robert Rudelius et al, 27-CV-20-5997 (District Court, 4th Judicial District, Hennepin County, MN).

On October 3, 2019, the Company received a shareholder demand sent on behalf of shareholder Michael Bach requesting that the Board of Directors take action to remedy alleged breaches of fiduciary duties related to the claims in the report issued December 18, 2018 by Seligman Investments (substantially the same allegations that form the basis for the Einhorn matters referenced above). On February 14, 2020 the Company sent a written response stating that it did not

intend to take any further action. On April 21, 2020, Bach filed a shareholder derivative complaint in Hennepin County, Minnesota, alleging breach of fiduciary duty, insider selling, corporate waste, and unjust enrichment. The Board intends to vigorously defend itself in this matter. The amount of loss, if any, cannot be reasonably estimated at this time.

These matters are subject to various uncertainties and it is possible that one or more may be resolved unfavorably to the Company. However, while it is not possible to predict with certainty the outcome of a matter, the Company and the Individual Defendants dispute the allegations, intend to vigorously defend themselves and as provided above the Einhorn Litigation was dismissed without prejudice prior to an amended motion being filed by plaintiffs.

#### **14. Retirement Plan**

##### **Axogen 401(k) Plan**

The Company sponsors the Axogen 401(k) plan (the “401(k) Plan”), a defined contribution plan covering substantially all employees of the Company. All full-time employees who have attained the age of 18 are eligible to participate in the 401(k) Plan. Eligibility is immediate upon employment and enrollment is available any time during employment. Participating employees may make annual pretax contributions to their accounts up to a maximum amount as limited by law. The 401(k) Plan requires the Company to make matching contributions of 3% on the first 3% of the employee’s annual salary and 1% of the next 2% of the employee’s annual salary as long as the employee participates in the 401(k) Plan. Both employee contributions and Company contributions vest immediately. Employer contributions to the 401(k) Plan for the three months ended September 30, 2020 and 2019 were approximately \$276 and \$231, respectively and for the nine months ended September 30, 2020 and 2019 were approximately \$859 and \$706, respectively.

## **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 subsidiaries Axogen Corporation (“AC”), Axogen Processing Corporation, and Axogen Europe GmbH.

### **Cautionary Statement Regarding the Impact of the COVID-19 Pandemic**

Coronavirus Disease 2019 (“COVID-19”) has had a significant adverse impact upon many sectors of the economy and the Company. With respect to the medical industry in particular, the pandemic initially has caused hospitals and clinics to: 1) reallocate their medical teams and resources to prepare for, and treat, increased COVID-19 patients; 2) defer or limit elective and non-emergency procedures; 3) restrict hospital access to non-essential personnel, including sales and clinical representatives not directly required for a specific procedure; and 4) temporarily discontinued clinical research not related to COVID-19. Accordingly, the Company advised all field-based teams to enter hospitals or clinics only at the request of a surgeon or hospital staff member (which mandate has since been lifted) and to complete all tasks occurring in hospitals or clinics in a manner that minimized human interaction (which mandate has since been lifted) and maintain social distancing.

In response to the COVID-19 pandemic, our top priority has been the health and safety of those we serve, including healthcare professionals and their patients, as well as our employees, communities, and suppliers. At the same time, we adapted to this new environment to continue to support our customers and their patients. To achieve these objectives, we took the following specific steps at the onset of the pandemic which we continue to adapt as conditions require:

- Established an executive-level COVID-19 core team that meets daily to review, implement, and communicate State and CDC guidelines and other important safety and operational protocols across the organization;
- Instructed all field-based teams to support customers remotely, only entering hospitals or clinics at the request of a surgeon or hospital staff to support patient care, and to complete all tasks in a manner that minimizes human interaction and maintained social distancing;
- Converted office-based staff to work from home arrangements;
- Divided our Texas distribution organization into two independent teams working on rotational weekly schedules to create separation in the event of an employee becoming exposed to the virus;
- Temporarily suspended the collection and processing of tissue, allowing utilization of existing inventory and preserving personal protective equipment;
- Established a back-up distribution center in our Alachua headquarters facility to preserve our ability to supply customers in the event our Texas center became exposed and was required to be shut down for several days for disinfecting; and
- Established new safety protocols at each of our facilities that include social distancing, mask wearing and, cleaning and disinfecting.

Although the Company’s sales team continued to support customers and their patients, the foregoing actions taken by the Company, governmental authorities (which, among other things, we believe led to a decline in the incidence of traumatic injuries as individuals’ day-to-day activities were restricted) and within the medical industry, as well as other effects of the pandemic, have had, and were expected to continue to have, a negative impact on the Company’s financial results. Accordingly, the Company took certain actions to preserve financial flexibility and partially mitigate the significant impact of COVID-19:

- Effective April 26, 2020, we reduced salaries for executive employees and board fees by 20%, and for all other exempt salaried employees by 10% or 15%;

- We completed an employee layoff of approximately 10% of our workforce and implemented a hiring freeze (with very limited exceptions);
- We temporarily suspended recovery and processing of tissue for certain of our products in order to utilize existing inventory;
- We deferred completion of our new biologics processing center in Vandalia, Ohio, which defers approximately \$25 million of expected 2020 capital expenditures to 2021, and extended the termination date of the CTS Agreement to December 31, 2022, which allows us to continue manufacturing our products pursuant to the CTS Agreement through such date; and
- Reduced certain discretionary spending, including travel, conference participation, surgeon education (as a result of surgeon travel restrictions), certain clinical trials (excluding our RECON, RANGER and our REPOSE trials) and selected projects across the organization.

In May of 2020, the Company's sales team began re-entering health care facilities, following local, regional and national guidelines and using contact tracing. The Company's access to healthcare facilities has improved, although restrictions remain and supporting customers remotely continues to be an important learned capability. Beginning in May 2020, the Company experienced short-term regional surges in nerve repair cases as hospitals began to lift restrictions and many deferred procedures were completed. During the third quarter, surgeons and hospitals continued to prioritize nerve repair procedures as elective surgical procedures volumes returned and we did receive some benefit during the third quarter from a catch-up of previously deferred procedures. We are carefully monitoring the regional impact of COVID-19 resurgence and believe that such resurgences may continue to negatively impact both the incidence of traumatic injury, and surgical procedure volumes in certain geographies.

COVID-19 has impacted our clinical study programs and the Company has implemented strategies to help manage these disruptions across several of its studies. The Company has increased its efforts to support completion of subject follow-up visits during the COVID-19 crisis by implementing an expanded home health visit program. This allows follow-up visits to be conducted by a trained healthcare professional outside of the clinic environment and with the appropriate safety precautions.

As the Company began to experience some recovery from COVID-19, some of our cost mitigation initiatives were lifted such as the restoration of pay levels, which were lifted for most employees in August 2020, and for executive member and board members in late October. The Company began to gradually restart its tissue processing in June and has continued to increase capacity through the third quarter. We expect to be back at full capacity in the fourth quarter. Tissue recovery was also restarted in the third quarter and is ramping to full capacity. The Company has also begun to slowly ramp investment into projects that were previously on hold, including certain clinical trials, product development, and marketing and administrative initiatives, as well as preparation to restart construction of the biologics processing center in Vandalia, Ohio. While the Company expects the path and pace of recovery to be uncertain, the cost mitigation initiatives and deferrals have improved the Company's cash burn.

## **OVERVIEW**

We are the leading company focused specifically on the science, development and commercialization of technologies for peripheral nerve regeneration and repair. We are passionate about helping to restore peripheral nerve function and quality of life to patients with physical damage or transection to peripheral nerves providing innovative, clinically proven and economically effective repair solutions for surgeons and health care providers. Peripheral nerves provide the pathways for both motor and sensory signals throughout the body. Every day people suffer traumatic injuries or undergo surgical procedures that impact the function of their peripheral nerves. Physical damage to a peripheral nerve, or the inability to properly reconnect peripheral nerves, can result in the loss of muscle or organ function, the loss of sensory feeling or the initiation of pain.

Axogen's platform for peripheral nerve repair features a comprehensive portfolio of products, including Avance Nerve Graft, a biologically active off-the-shelf processed human nerve allograft for bridging severed peripheral 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 peripheral 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, Axoguard Nerve Cap, a porcine submucosa ECM product used to protect a peripheral nerve end and separate the nerve from the surrounding environment to reduce the development of symptomatic or painful neuroma and Avive Soft Tissue Membrane, a processed human umbilical cord intended for surgical use as a resorbable soft tissue barrier. Along with these core surgical products, we also offer the Axotouch<sup>®</sup> Two-Point Discriminator, used to measure the innervation density of any surface area of the skin. Our portfolio of products is available in the United States, Canada, the United Kingdom, several European countries, South Korea and other international countries.

Revenue from the distribution of Axogen’s nerve repair products, Avance Nerve Graft, Axoguard Nerve Connector, Axoguard Nerve Protector and Avive Soft Tissue Membrane, in the United States is the main contributor to Axogen’s total reported sales and has been the key component of our growth to date.

We have experienced that surgeons initially are cautious adopters for nerve repair products. Surgeons typically start with a few cases and then wait and review the results of these initial cases. Active accounts are usually past this wait period and have developed some level of product reorder. These active accounts have typically gone through the committee approval process, have at least one surgeon who has converted a portion of his or her treatment algorithms of peripheral nerve repair to the Axogen portfolio and have ordered Axogen products at least six times in the last 12 months. In the third quarter, we had 875 active accounts, an increase of 11% from 791 one year ago. The top 10% of these active accounts continue to represent approximately 35% of our revenue.

As such, revenue growth primarily occurs from increased purchasing from active accounts, followed by revenue growth from new accounts. Late last year we rebalanced our commercial organization toward our largest market opportunity, extremity trauma, and refocused our team on driving deeper penetration with our existing surgeon customers. During COVID-19 pandemic, we kept our sales team and broader commercial organization intact and took the opportunity to provide extensive sales training. Our sales team developed skills and shared best practices around remote case support where hospital access has been restricted. We believe this remote support has been appreciated by customers and has expanded our sales team’s ability to support surgeons and their patients during COVID-19 and beyond.

There have been no significant changes to our critical accounting policies from those disclosed in our 2019 Annual Report on Form 10-K, as amended on Form 10-K/A.

**Results of Operations**

*Comparison of the Three Months Ended September 30, 2020 and 2019*

	<b>Three Months Ended September 30,</b>			
	<b>2020</b>		<b>2019</b>	
	<b>Amount</b>	<b>% of Revenue</b>	<b>Amount</b>	<b>% of Revenue</b>
	<b>(dollars in thousands)</b>			
Revenues	\$ 33,428	100.0 %	\$ 28,564	100.0 %
Cost of goods sold	5,697	17.0	4,510	15.8
Gross Profit	27,731	83.0	24,054	84.2
Cost and expenses				
Sales and marketing	17,726	53.0	18,245	63.9
Research and development	4,230	12.7	4,181	14.6
General and administrative	6,820	20.4	7,740	27.1
Total costs and expenses	28,776	86.1	30,166	105.6
Loss from operations	(1,045)	(3.1)	(6,112)	(21.4)
Other income (expense):				
Investment income	28	0.1	555	1.9
Interest expense	(397)	(1.2)	(7)	(0.0)
Other expense	(65)	(0.2)	(7)	(0.0)
Total other income (expense), net	(434)	(1.3)	541	1.9
Net Loss	\$ (1,479)	(4.4)%	\$ (5,571)	(19.5)%

Revenues

Revenues for the three months ended September 30, 2020 increased 17% to \$33,428 as compared to \$28,564 for the three months ended September 30, 2019. Revenue growth was driven by an increase in unit volume of approximately 12%, as well as the net impact of changes in prices and product mix of approximately 5%. The growth in unit volume increase was primarily attributed to unit growth in our active accounts. As mentioned earlier, the Company experienced regional surges in nerve repair surgeries primarily in the early part of the quarter, as hospital and surgical centers began lifting COVID-19 restrictions which positively impacted our third quarter results.

Gross Profit

Gross profit for the three months ended September 30, 2020 increased 15% to \$27,731 as compared to \$24,054 for the three months ended September 30, 2019. Gross margin decreased to 83% in the three months ended September 30, 2020 compared to 84% for the three months ended September 30, 2019. In the third quarter of 2020, we restarted our previously idled processing facility and are ramping our production volumes to meet increasing customer demand, however, our processing did not achieve full capacity to provide the efficiencies seen in the third quarter of 2019.

Costs and Expenses

Total costs and expenses decreased 5% to \$28,776 for the three months ended September 30, 2020, as compared to \$30,166 for the three months ended September 30, 2019. The decrease in operating expenses was primarily attributable to the impact of our cost mitigation initiative implemented in April 2020 as a result of COVID-19, and lower litigation expenses than the prior year as a result of reaching deductible limits with respect to certain litigation matters. These decreases in expenses were slightly offset by increases in our commission and bonus accruals as a result of the increases in revenue. As a percentage of total revenues, total costs and expenses decreased to 86% for the three months ended September 30, 2020, as compared to 106% for the three months ended September 30, 2019.

Sales and marketing expenses decreased 3% to \$17,726 for the three months ended September 30, 2020, as compared to \$18,245 for the three months ended September 30, 2019. This decrease was primarily due to reduction in our educational programs, including surgeon education as we have cancelled in-person programs as well as lower travel and conference

participation. These expenses were slightly offset by increases in revenue related expenses, such as commissions. As a percentage of total revenues, sales and marketing expenses decreased to 53% for the three months ended September 30, 2020 as compared to 64% for the three months ended September 30, 2019.

Research and development expenses slightly increased to \$4,230 for the three months ended September 30, 2020, as compared to \$4,181 for the three months ended September 30, 2019. Research and development costs include Axogen's product development including expenses in support of our BLA for Avance Nerve Graft, and clinical trials. Product development expenses represented approximately 49% of total research and development expense in the three months ended September 30, 2020 as compared to 51% in the prior year period. Clinical trial expenses represented approximately 51% of research and development expense in the three months ended September 30, 2020 as compared to 49% in the prior year period. COVID-19 has impacted the Company's clinical study programs and the Company has implemented strategies to help manage these disruptions. Although the activities related to active clinical trials have decreased due to access restrictions at various study sites, our total investment in clinical trials increased over the prior year period. As a percentage of total revenues, research and development expenses were 12% for the three months ended September 30, 2020 as compared to 15% for the three months ended September 30, 2019.

General and administrative expenses decreased 12% to \$6,820 for the three months ended September 30, 2020, as compared to \$7,740 for the three months ended September 30, 2019, primarily due to reductions in professional fees, including lower litigation fees as discussed above, travel expenses and recruiting fees, offset by variable compensation as a result of increased revenue. As a percentage of total revenues, general and administrative expenses decreased to 20% for the three months ended September 30, 2020 as compared to 27% for the three months ended September 30, 2019.

#### Other Income and Expenses

We recognized total other expense of \$434 for the three months ended September 30, 2020, compared to other income of \$541 for the three months ended September 30, 2019. The change is primarily due to interest expense \$397 recognized in the current period on the Oberland debt facility which began June 30, 2020, and lower investment income from our asset management program as the Company lowered its investment balances and increased cash reserves.

#### Income Taxes

We had no income tax expenses or income tax benefit for each of the three months ended September 30, 2020 and 2019, due to the incurrence of net operating losses in each of these periods, the benefits of which have been fully reserved. We do not believe that there are any additional tax expenses or benefits currently available.

*Comparison of the Nine Months Ended September 30, 2020 and 2019*

	Nine Months Ended September 30,			
	2020		2019	
	Amount	% of Revenue	Amount	% of Revenue
	(dollars in thousands)			
Revenues	\$ 79,805	100.0 %	\$ 78,550	100.0 %
Cost of goods sold	16,118	20.2	12,468	15.9
Gross Profit	63,687	79.8	66,082	84.1
Cost and expenses				
Sales and marketing	49,854	62.5	53,146	67.7
Research and development	12,915	16.2	12,602	16.0
General and administrative	18,726	23.5	24,321	31.0
Total costs and expenses	81,495	102.1	90,069	114.7
Loss from operations	(17,808)	(22.3)	(23,987)	(30.5)
Other income (expense):				
Investment income	576	0.7	1,925	2.5
Interest expense	(459)	(0.6)	(32)	(0.0)
Other expense	(85)	(0.1)	(3)	(0.0)
Total other income, net	32	0.0	1,890	2.4
Net Loss	\$ (17,776)	(22.3)%	\$ (22,097)	(28.1)%

Revenues

Revenues for the nine months ended September 30, 2020 increased 2% to \$79,805 as compared to \$78,550 for the nine months ended September 30, 2019.

As described above, certain hospitals and surgery centers, after discontinuing elective surgeries due to COVID-19, began performing such surgeries again and starting in May allowed our sales representatives to begin entering their facilities once again in May. As a result, we began to experience a surge in revenue as these facilities began scheduling surgeries. Although the Company has begun to see a recovery, its unit volume decreased by 2% in the nine months ended September 30, 2020 as compared to the prior year period. This decrease was slightly offset by the net impact of price increases and changes in product mix of 4%.

Gross Profit

Gross profit for the nine months ended September 30, 2020 decreased 4% to \$63,687 as compared to \$66,082 for the nine months ended September 30, 2019. Gross margin was negatively impacted in the nine months ended September 30, 2020 as a result of a \$2,114 increase in period costs resulting from our temporary suspension of tissue processing. We expect gross margins to continue to return to a normalized level as we continue to increase production levels. As a result, gross margin decreased to 80% for the nine months ended September 30, 2020, as compared to 84% for the same period in 2019.

Costs and Expenses

Total costs and expenses decreased 10% to \$81,495 for the nine months ended September 30, 2020, as compared to \$90,069 for the nine months ended September 30, 2019. The decrease in operating expense were primarily attributable to a reduction in travel, stock compensation, our surgeon professional education conferences as a result of COVID-19, clinical studies and litigation expenses related to litigation matters in the prior year. The decrease in stock compensation is primarily related to forfeitures of performance stock units awarded, and updated estimates of forfeitures of future performance awards resulting from the expected impact of COVID-19. Travel expense was lower as COVID-19 resulted in the cancellation of medical conferences, surgeon education programs, in person sales meetings and other functions. As a percentage of total revenues, total cost and expenses decreased to 102% for the nine months ended September 30, 2020, as compared to 115% for the nine months ended September 30, 2019.



Sales and marketing expenses decreased 6% to \$49,854 for the nine months ended September 30, 2020, as compared to \$53,146 for the nine months ended September 30, 2019. This decrease was driven by the reduction in our surgeon education as we have cancelled in-person education programs and travel as a result of travel restrictions and our cancelled in-person education programs. Increases to salaries and benefits from increased commissions relating to the increased revenue and severance slightly offset these decreases. The majority of these decreases were the result of the impact COVID-19 has had on the Company's business. As a percentage of total revenues, sales and marketing expenses decreased to 63% for the nine months ended September 30, 2020 as compared to 68% for the nine months ended September 30, 2019.

Research and development expenses increased 2% to \$12,915 for the nine months ended September 30, 2020 as compared to \$12,602 for the nine months ended September 30, 2019. Development represented approximately 47% of total research and development expense in the nine months ended September 30, 2020 as compared to 53% in the prior year period. Clinical represented approximately 53% of research and development expense in the nine months ended September 30, 2020 as compared to 47% in the prior year period. The Company expects to increase activity related to its BLA efforts and therefore anticipates higher costs associated with this project. COVID-19 has impacted the Company's clinical study programs and the Company has implemented strategies to help manage these disruptions. Although our clinical trial activities have decreased due to the access restrictions in various study sites, as a result of COVID-19, our total investment in clinical trials increased over the prior year period. As a percentage of total revenues, research and development expenses were 16% for both the nine months ended September 30, 2020 and September 30, 2019.

General and administrative expenses decreased 23% to \$18,726 for the nine months ended September 30, 2020 as compared to \$24,321 for the nine months ended September 30, 2019. The decrease in general and administrative expenses included lower non-cash stock compensation of \$1,417 in the period, primarily related to forfeitures of performance stock units awarded in the first quarter, and updated estimates of forfeitures of future performance awards resulting from the expected impact of COVID-19. Additionally, general and administrative expenses in the prior year included \$2,327 of litigation costs associated with the litigation matters. These decreases were slightly offset by the increases in salaries and benefits from increased headcount and increased bonus accruals as a result of the increased revenue, partially offset by the implementation of temporary salary reductions. As a percentage of total revenues, general and administrative expenses were 24% for the nine months ended September 30, 2020 as compared to 31% for the nine months ended September 30, 2019.

#### Other Income and Expenses

For the nine months ended September 30, 2020 and 2019, we recognized \$576 and \$1,925 of investment income from our asset management and cash investment sweep accounts. This decrease is primarily related to the average cash balances held in the nine months ended September 30, 2020 as compared to the prior year period. For the nine months ended September 30, 2020 and 2019, the Company incurred \$459 and \$32 of interest expense. As previously disclosed, the Company entered into a debt facility at the end of last quarter and as a result, recorded \$459 in interest from the new financing (See Note 13 Commitments and Contingencies).

#### Income Taxes

We had no income tax expenses or income tax benefit for each of the nine months ended September 30, 2020 and 2019, due to the incurrence of net operating losses in each of these periods, the benefits of which have been fully reserved. We do not believe that there are any additional tax expenses or benefits currently available.

#### **Effect of Inflation**

Inflation did not have a significant impact on the Company's net sales, revenues or income from continuing operations during the three months ended September 30, 2020 and 2019.

## Liquidity and Capital Resources

### Cash Flow Information

As of September 30, 2020, the Company had cash, cash equivalents, and restricted cash of \$67,609, an increase of \$25,885 from \$41,724 at December 31, 2019, primarily as a result of the Company entering into a new debt facility on June 30, 2020 (See Note 10 Long Term Debt), which provided the Company with net proceeds of \$34,650 at closing, as further described below.

The Company had working capital of \$121,181 and a current ratio of 7.4 at September 30, 2020, compared to working capital of \$114,141 and a current ratio of 6.5 at December 31, 2019. The increase in working capital and the current ratio at September 30, 2020, as compared to December 31, 2019, was primarily due to the closing of our new debt facility on June 30, 2020 offset by the use of working capital to fund operations, including but not limited to the payment in 2020 of the 2019 performance bonus, annual sales awards, and our annual sales meeting totaling \$5,897 and prepaid annual insurance premiums totaling \$2,155. In addition, the Company paid capital expenditures related to construction of the biologics processing center in Vandalia, Ohio, and our Tampa, FL facility totaling \$11,254 in the nine months ended September 30, 2020. The Company believes it has sufficient cash resources to meet its liquidity requirements for at least the next 12 months based on its expected level of operations.

The Company's future capital requirements depend on a number of factors: primarily the point at which our revenues stabilize after the COVID-19 pandemic is no longer impacting the business, the rate at which these revenues increase post this period and our ability to adjust expenses to these revenues, and including, without limitation, cost of future office and manufacturing facilities, products and acquisition and/or development of new products. The Company will face increasing capital needs. Such capital needs could be substantial depending on the extent to which the Company is unable to increase revenue or manage costs.

If the Company needs additional capital in the future, it may raise additional funds through public or private equity offerings or from other sources. The sale of additional equity would result in dilution to the Company's shareholders. There is no assurance that the Company 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. Should additional capital not become available to the Company as needed, the Company may be required to take certain actions, such as slowing sales and marketing expansion, delaying regulatory approvals or reducing headcount.

The Company's principal sources and uses of funds are explained below:

#### Cash used in operating activities

Operating activities for the nine months ended September 30, 2020 used \$12,463 of cash as compared to using \$16,542 for the nine months ended September 30, 2019. This improvement is attributable to the improved in net loss, including the adjustments to net loss to reconcile the cash flows.

#### Cash provided by investing activities

Investing activities for the nine months ended September 30, 2020 provided \$2,389 of cash as compared to \$13,685 for the nine months ended September 30, 2019. This decrease in cash provided by investing activities was principally attributable to the leasehold improvements in our new Tampa facility and expenditures for our previously disclosed APC facility being built in Ohio.

#### Cash used in/provided by financing activities

Financing activities for the nine months ended September 30, 2020 provided \$35,959 of cash as compared to \$3,118 of cash for the nine months ended September 30, 2019. The increase in cash provided by financing activities was primarily the result of the previously mentioned debt financing, resulting in an increase of \$34,358.

### **Operating Cash Requirements**

On July 9, 2019, the Company entered into a Standard Form of Agreement Between Owner and Design-Builder (the “Design-Build Agreement”) with CRB Builders, L.L.C., a Missouri limited liability company (“CRB”), pursuant to which CRB will renovate and retrofit the APC (See Note 13 Commitments and Contingencies). In connection with COVID-19, the Company has implemented a cost reduction strategy designed to defer and reduce certain expenses and capital expenditures, including deferred completion of the APC up to one year. The Company anticipates restarting construction in the first quarter of 2021 and spending approximately \$26,000 through the end of 2021, excluding the impact of capitalized interest.

Axogen expects to receive certain economic development grants from state and local authorities totaling up to \$2,685 including \$1,250 of cash grants to offset costs to acquire and develop the APC. The economic development grants are subject to certain job creation milestones by 2023 and related contingencies. The Company has received approximately \$238 from these grants. These grants have claw back clauses if the Company does not meet these job creation milestones by 2023. The Company believes despite the delay in the APC that these incentives will continue to be available.

On September 20, 2018, the Company entered into an agreement (the “Heights Agreement”) with Heights Union, LLC, a Florida limited liability company (“Heights Union”), for the lease of seventy-five thousand square feet of office space (the “Heights Union Premises”) in Tampa, Florida. In May 2020, the Company entered into a construction escrow agreement (the “Escrow Agreement”) with Heights Union and Commonwealth Land Title Insurance Company (“Escrow Agent”) which provided for the establishment of a federally insured escrow bank account (the “Escrow Account”) to hold Company fund to be used for tenant improvements in excess of the tenant allowance as provided in the Heights Agreement. The Company deposited \$6,289 into the Escrow Account for use in completing construction of the tenant improvements. The Escrow Agent will disburse the funds upon joint written instructions from Heights Union and the Company. During the three months and nine months ended September 30, 2020, \$3,003 and \$4,682, respectively, was disbursed from the Escrow Account and recorded in property and equipment account of the balance sheet. The Company anticipates depleting the Escrow Account by November 2020. As of September 30, 2020, \$1,607 remained in the Escrow Account and is recorded as restricted cash in the condensed consolidated balance sheet.

As of September 30, 2020, we had cash, cash equivalents and investments totaling \$106,734 and total current liabilities of \$18,792. Based on current estimates, we believe that our existing cash, cash equivalents and investments will allow us to fund our operations through at least the next 12 months. However, as the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. A continued worldwide disruption could materially affect our future access to our sources of liquidity, particularly our cash flows from operations, financial condition, capitalization, and capital investments. In the event of a sustained market deterioration, we may need additional liquidity, which would require us to evaluate available alternatives and take appropriate actions.

### **Material Commitments**

As previously disclosed in Note 13 – Commitments and Contingencies, in July 2018, the Company purchased a 70,000 square foot facility, the APC, on approximately 8.6 acres of land in Vandalia, Ohio.

On July 9, 2019, the Company entered into the Design-Build Agreement with CRB, pursuant to which CRB will renovate and retrofit the PC. The Design-Build Agreement contains several design phase milestones that began in July 2019 and sets the date for Substantial Completion (as defined in the Design-Build Agreement) in the third quarter of 2020, subject to adjustment in accordance with the terms of the Design-Build Agreement. The estimated cost pursuant to the Design-Build Agreement is \$29,300. Additional costs associated with the renovation, purchasing of furniture and equipment, validation and certification of the APC are estimated to be \$13,600. These capital expenditure costs will be incurred as they arise until the anticipated full transition of material processing to the APC by late 2022. As of September 30, 2020, the Company has recorded \$9,062 in the current year and \$15,127 to date related to renovations and design build in construction in progress. These items are recorded as projects in process as part of the property and equipment in its condensed consolidated balance sheet. In addition, the Company will capitalize interest expense from its debt facility based on the amount of accumulated expenditures of this asset during the period that is required to get the asset ready for its intended use. In the three months ended September 30, 2020, the Company capitalized \$489 to construction in progress.

As a result of COVID-19, the Company has implemented a cost reduction strategy designed to defer and reduce certain expenses, including deferment of the APC by up to one year. This defers approximately \$25,000 of expected 2020 capital expenditures to 2021. In addition, the Company extended its current production facility License and Services agreement with Community Tissue Services (“CTS”) by one year to December 31, 2022. During the third quarter of 2020, the Company determined to resume the APC project in early 2021. The Company expects expenditures for this project of approximately \$498 for the remainder of the current fiscal year and anticipates spending approximately \$26,000 during 2021.

The Company expects to receive certain economic development grants from state and local authorities totaling up to \$2,685 including \$1,250 of cash grants to offset costs to acquire and develop the APC. The economic development grants are subject to certain job creation milestones by 2023 and related contingencies. The Company has received approximately \$238 from these grants. These grants have claw back clauses if the Company does not meet these job creation milestones by 2023.

Pursuant to the Heights Agreement, the Company will use the leased premises in Tampa, Florida for general office, medical laboratory, training and meeting purposes. The lease term includes several months of free rent. The Company will record a right of use asset and liability at the commencement of the lease term. The Company anticipates occupying the premises by the fourth quarter of 2020.

#### **Off-Balance Sheet Arrangements**

Axogen does not have any off-balance sheet arrangements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The following discussion about our exposure to market risk of financial instruments contains forward-looking statements under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those described due to a number of factors, including uncertainties associated with general economic conditions and conditions impacting our industry.

We are exposed to certain market risks in the ordinary course of business.

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivables. We maintain our accounts for cash and cash equivalents principally at one major bank and one investment firm in the United States. We have not experienced any losses on our deposits of our cash and cash equivalents.

With respect to accounts receivable, we perform credit evaluations of our customers and do not require collateral. There have been no material losses on accounts receivables. 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 and monitoring procedures.

We are subject to market risk from exposure to changes in interest rates based upon our investing and cash management activities. Changes in interest rates affect interest income earned on cash and cash equivalents. We have not entered into derivative transactions related to cash and cash equivalents. We do not expect changes in interest rates to have a material adverse effect on our income or our cash flows in 2020. However, we can give no assurance that interest rates will not significantly change in the future.

We also have interest rate exposure as a result of the Oberland Facility. As of September 30, 2020, the outstanding principal amount of our loans under the Oberland Facility was \$35,000. Interest on our loans under the Oberland Facility is payable quarterly during the term of the loans at a rate per annum, subject to certain exceptions, equal to the sum of (a) the greater of (i) LIBOR and (ii) 2% and (b) 7.5% (which percentage is subject to adjustment as described in the Oberland facility); provided that the interest rate shall never be less than 9.5%. Changes in the LIBOR rate may therefore affect our

interest expense associated with the loans. An increase of 100 basis points in interest rates would increase expense by approximately \$350 annually based on the amounts currently outstanding and would not materially affect our results of operations.

The value of the U.S. dollar compared to the Euro has little to no effect on our financial results. International business transactions are currently invoiced in U.S. dollars. As a result, the Company has minimal exposure related to exchange rate fluctuations.

In the United States, we sell our products directly to hospitals and clinics in the local currency. Revenue is recognized as disclosed in Note 2 - Summary of Significant Accounting Policies - Revenue Recognition in our Notes to the Unaudited Condensed Consolidated Financial Statements.

In all international markets, we distribute our products and services to independent distributors who, in turn, distribute and market to medical clinics. The revenue from the distribution of our products in these countries through independent distributors is denominated in United States dollars.

We do not believe our operations are currently subject to significant market risks for foreign currency exchange rates, commodity prices or other relevant market price risks of a material nature.

#### **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, as amended (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 SEC’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 September 30, 2020 and concluded that our disclosure controls and procedures were effective.

##### **Changes in Internal Controls Over Financial Reporting**

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in the reports filed or submitted by us to the SEC is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure. As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of these disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

During the quarter ended September 30, 2020, we implemented changes to our controls relating to its new debt facility. These changes included new processes to evaluate and account for debt and debt compliance. As a result of the COVID-19 pandemic, in March certain employees of the Company began working remotely but many have returned to the office as of July. As a result of these changes to the working environment of 2020 the Company has not identified any material changes in the Company’s internal control over financial reporting. The Company is continually monitoring and assessing the COVID-19 situation to determine any potential impacts on the design and operating effectiveness of our

internal controls over financial reporting. There were no other changes in our internal controls over financial reporting during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1 – LEGAL PROCEEDINGS**

From time to time, we may be a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business, some of which relate to some or all of certain of our patents. While it is not possible to determine the outcome of these matters, management does not expect that the ultimate costs to resolve these matters will materially adversely affect our business, financial position, or results of operations.

Except as provided below, Axogen and its subsidiaries are not a party to any material litigation as of September 30, 2020:

On January 9, 2019, Plaintiff Neil Einhorn, on behalf of himself and others similarly situated (the “Plaintiff”), filed a putative class action complaint in the United States District Court for the Middle District of Florida (the “Court”) alleging violations of the federal securities laws against Axogen, Inc., certain of its directors and officers (“Individual Defendants”), and (i) the several underwriters (the “2017 Offering Underwriters”) named in that certain Underwriting Agreement, dated November 16, 2017, by and between the Company and Leerink Partners LLC, as representative of the several underwriters named therein, and (ii) the several underwriters (the “2018 Offering Underwriters”) named in that certain Underwriting Agreement, dated May 8, 2018, by and between the Company and Jefferies LLC and Leerink Partners LLC, as representatives of the several underwriters named therein (the 2017 Offering Underwriters and 2018 Offering Underwriters, collectively, with the Individual Defendants, the “Defendants”), captioned *Einhorn v. Axogen, Inc., et al.*, No. 8:19-cv-00069 (M.D. Fla.). Plaintiff asserts that Defendants made false or misleading statements in connection with the Company’s November 2017 registration statement issued regarding its secondary public offering in November 2017 and May 2018 registration statement issued regarding its secondary public offering in May 2018, and during a class period of August 7, 2017 to December 18, 2018. In particular, Plaintiff asserts that Defendants issued false and misleading statements and failed to disclose to investors: (1) that the Company aggressively increased prices to mask lower sales; (2) that the Company’s pricing alienated customers and threatened the Company’s future growth; (3) that ambulatory surgery centers form a significant part of the market for the Company’s products; (4) that such centers were especially sensitive to price increases; (5) that the Company was dependent on a small number of surgeons whom the Company paid to generate sales; (6) that the Company’s consignment model for inventory was reasonably likely to lead to channel stuffing; (7) that the Company offered purchase incentives to sales representatives to encourage channel stuffing; (8) that the Company’s sales representatives were encouraged to backdate revenue to artificially inflate metrics; (9) that the Company lacked adequate internal controls to prevent such channel stuffing and backdating of revenue; (10) that the Company’s key operating metrics, such as number of active accounts, were overstated; and (11) that, as a result of the foregoing, Defendants’ positive statements about the Company’s business, operations, and prospects, were materially misleading and/or lacked a reasonable basis. Plaintiff seeks an order (a) declaring the action a proper class action pursuant to Rule 23 of the Federal Rules of Civil Procedure; (b) awarding Police and Fire Retirement System of the City of Detroit (“Lead Plaintiff”) and the prospective class compensatory damages against all Defendants in an amount to be proven at trial; (c) awarding Lead Plaintiff and the prospective class extraordinary equitable and/or injunctive relief as permitted by the law (including but not limited to rescission); (d) awarding Lead Plaintiff and the prospective class their costs and expenses incurred in the action, including reasonable attorneys’ fees and expert fees; (e) all such other relief that may be just and proper. Axogen was served on January 15, 2019. On February 4, 2019, the court granted the parties’ stipulated motion which provided that Axogen was not required to file a response to the complaint until thirty days after Plaintiff files a consolidated amended complaint. On June 19, 2019, Plaintiff filed an Amended Class Action Complaint, and on July 22, 2019, Defendants filed a motion to dismiss. Plaintiff filed opposing papers on August 12, 2019. The Court held a status hearing on September 11, 2019 and stayed all deadlines regarding the parties’ obligations to file a case management report. The Court scheduled oral argument for the motion to dismiss for December 4, 2019. On April 21, 2020, the Court dismissed the Complaint without prejudice, finding the Plaintiff failed to state a claim upon which relief could be granted. The Plaintiff filed a Second Amended Class Action Complaint on June 22, 2020. Axogen will file a motion to dismiss on August 6, 2020. The Plaintiff filed an opposition to such dismissal on September 20, 2020. Both parties have requested

to present oral arguments and await the Court's decision. Plaintiff is seeking compensatory damages, reimbursement of expenses and costs, including counsel and expert fees and such other relief as the court deems just and proper. The Company and Individual Defendants continue to dispute the allegations and intend to vigorously defend against the any amended Complaint, if filed.

On October 3, 2019, the Company received a shareholder demand sent on behalf of shareholder Michael Bach requesting that the Board of Directors take action to remedy alleged breaches of fiduciary duties related to the claims in the report issued December 18, 2018 by Seligman Investments (substantially the same allegations that form the basis for the Einhorn matters referenced above). On February 14, 2020 the Company sent a written response stating that it did not intend to take any further action. On April 21, 2020, Bach filed a shareholder derivative complaint in Hennepin County, Minnesota, alleging breach of fiduciary duty, insider selling, corporate waste, and unjust enrichment. The Board intends to vigorously defend itself in this matter. The amount of loss, if any, cannot be reasonably estimated at this time.

#### **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 SEC, readers should consider carefully the risk factors discussed in Part I "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, as amended on Form 10-K/A. If any of these risks actually occur, the Company's business, results of operations or financial condition could be materially adversely affected.

***The COVID-19 pandemic could have a material adverse effect on our ability to operate, results of operations, financial condition, liquidity, and capital investments.***

The World Health Organization has declared the COVID-19 outbreak a pandemic, and the virus continues to spread in areas where we operate and sell our products. COVID-19, or similar extraordinary events in the future, could have a material adverse effect on our ability to operate, results of operations, financial condition, liquidity and capital investments. While the ultimate economic impact of COVID-19 cannot be reliably quantified or estimated at this time due to the uncertainty of future developments, COVID-19 will materially affect the Company's near-term financial performance and, as a result, the Company has suspended its 2020 financial guidance provided on February 24, 2020.

In response to COVID-19, several public health organizations have recommended, and some local governments have implemented, certain measures to slow and limit the transmission of the virus, including quarantines, "shelter-in-place" and "stay-at-home" orders, travel restrictions and business curtailments, among other measures. With respect to the medical industry in particular, the pandemic has caused hospitals and clinics to: (1) reallocate their teams and resources to prepare for increased COVID-19 patients; (2) defer or limit elective and non-emergency procedures; and (3) restrict hospital access to non-essential personnel, including sales and clinical representatives not directly required for a specific procedure.

Such measures or others (including future measures implemented by governmental authorities and measures we have put in place or may in the future voluntarily put in place), as well as other effects of COVID-19, have had, and will continue to have, directly and indirectly, a material adverse effect on our business as they result in decreased demand for our product, decreased access to customer channels, decreased employee availability, adverse economic conditions, potential border closures and other disruptions to our business and the businesses of our business partners and others.

***Our credit facility and payment obligations under the Revenue Participation Agreement with TPC Investments II LP and Argo SALLC, each affiliates of Oberland Capital (collectively, "Oberland Capital"), contain operating and financial covenants that restrict our business and financing activities, require cash payments over an extended period of time and are subject to acceleration in specified circumstances, which may result in Oberland Capital taking possession and disposing of any collateral.***

Our credit facility with Oberland Capital contains restrictions that limit our flexibility in operating our business. Under the terms of the credit facility, we must maintain, and cause our subsidiaries to maintain, certain covenants, including with

respect to limitations on new indebtedness, restrictions on the payment of dividends and maintenance of revenue levels. Our credit facility is collateralized by all of our assets including, among other things, our intellectual property.

If we breach certain of our debt covenants and are unable to cure such breach within the prescribed period, revert to the provided liquidity covenant or are not granted waivers in relation to such breach, it may constitute an event of default under the credit facility, giving Oberland Capital the right to require us to repay the then outstanding debt immediately, and Oberland Capital could, among other things, foreclose on the collateral granted to them to collateralize such indebtedness, if we are unable to pay the outstanding debt immediately. A breach of the covenants contained in the credit facility documents and the acceleration of its repayment obligations by Oberland Capital could have a material adverse effect on our business, financial condition, results of operations and prospects.

In connection with the credit facility, we entered into a Revenue Participation Agreement (“RPA”) with Oberland Capital. Pursuant to the RPA, we agreed to pay a percentage of our net revenues, up to \$70 million in any given fiscal year, subject to certain limitations set forth therein, during the period commencing on the later of (i) April 1, 2021 and (ii) the date of funding of a loan under the credit facility, and ending on the date upon which all amounts owed under the Term Loan Agreement have been paid in full. Payments will commence on September 30, 2021 with the royalty structure resulting in approximately 1.0% per year of additional payments on the outstanding principal amount of the loans.

The credit facility and RPA could have important negative consequences to the holders of our securities. For example, a portion of our cash flow from operations will be needed to make payments to Oberland Capital and will not be available to fund future operations. Additionally, we may have increased vulnerability to adverse general economic and industry conditions. Payment requirements under the credit facility and RPA will increase our cash outflows. Our future operating performance is subject to market conditions and business factors that are beyond our control. If our cash inflows and capital resources are insufficient to allow us to make required payments, we may have to reduce or delay capital expenditures, sell assets or seek additional capital. If we raise funds by selling additional equity, such sale would result in dilution to our stockholders. There is no assurance that if we are required to secure funding, we can do so on terms acceptable to us, or at all.

Other than the item listed above, there have been no material changes in our risk factors from those disclosed in Part I “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, as amended on Form 10-K/A.

**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†	<a href="#">Commercial Lease, dated October 1, 2020, by and between Axogen Corporation and Ja-Cole, L.P.</a>
31.1†	<a href="#">Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2†	<a href="#">Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32††	<a href="#">Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS†	XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.
104†	Cover Page Interactive Data File – The cover pages does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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: October 30, 2020

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

Dated: October 30, 2020

/s/ Peter J. Mariani  
Peter J. Mariani  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



**COMMERCIAL LEASE**

USE OF THIS FORM BY PERSONS WHO ARE NOT MEMBERS OF THE TEXAS ASSOCIATION OF REALTORS®, INC. IS NOT AUTHORIZED.  
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(TXR-2101) 4-1-14

Initialed for Identification by Landlord: , \_\_\_ , and Tenant: ,

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**COMMERCIAL LEASE**

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**1. PARTIES:** The parties to this lease are:

Landlord: Ja-Cole, L.P. \_\_\_\_\_; and

Tenant: AxoGen Corporation \_\_\_\_\_

**2. LEASED PREMISES:**

A. Landlord leases to Tenant the following described real property, known as the "leased premises," along with all its improvements  
(Check only one box):

(1) **Multiple-Tenant Property:** Suite or Unit Number A-11 containing approximately 2500 square feet of rentable area in Boone Business Park (*project name*) at 300 Boone Rd A-11 (*address*) in Burleson (*city*), Johnson (*county*), Texas, which is legally described on attached Exhibit \_\_\_\_\_ or as follows: Boone Business Park Blk 1 Lot 3

(2) **Single-Tenant Property:** The real property containing approximately \_\_\_\_\_ square feet of rentable area at: \_\_\_\_\_  
(*address*) in \_\_\_\_\_ (*city*), \_\_\_\_\_ (*county*), Texas, which is legally described on attached Exhibit \_\_\_\_\_ or as follows:

B. If Paragraph 2A(1) applies:

- (1) "Property" means the building or complex in which the leased premises are located, inclusive of any common areas, drives, parking areas, and walks; and
- (2) the parties agree that the rentable area of the leased premises may not equal the actual or useable area within the leased premises and may include an allocation of common areas in the Property. The rentable area  will  will not be adjusted if re-measured.

**3. TERM:**

A. **Term:** The term of this lease is 24 months and \_\_\_\_\_ days, commencing on: October 1 2020 (Commencement Date) and ending on October 31 2022 (Expiration Date).

B. **Delay of Occupancy:** If Tenant is unable to occupy the leased premises on the Commencement Date because of construction on the leased premises to be completed by Landlord that is not substantially

complete or a prior tenant's holding over of the leased premises, Landlord will not be liable to Tenant for such delay and this lease will remain enforceable. In the event of such a delay, the Commencement Date will automatically be extended to the date Tenant is able to occupy the Property and the Expiration Date will also be extended by a like number of days, so that the length of this lease remains unchanged. If Tenant is unable to occupy the leased premises after the 90th day after the Commencement Date because of construction on the leased premises to be completed by Landlord that is not substantially complete or a prior tenant's holding over of the leased premises, Tenant may terminate this lease by giving written notice to Landlord before the leased premises become available to be occupied by Tenant and Landlord will refund to Tenant any amounts paid to Landlord by Tenant. This Paragraph 3B does not apply to any delay in occupancy caused by cleaning or repairs.

C. **Certificate of Occupancy:** Unless the parties agree otherwise, Tenant is responsible for obtaining a certificate of occupancy for the leased premises if required by a governmental body.

**4. RENT AND EXPENSES:**

A. **Base Monthly Rent:** On or before the first day of each month during this lease, Tenant will pay Landlord base monthly rent as described on attached Exhibit \_\_\_\_\_ or as follows:

Dates		Rate per rentable square foot (optional)		Base Monthly Rent\$
From	To	\$ Monthly Rate	\$ Annual Rate	
10/01/2020	10/31/2022	/ rsf / month	/ rsf / year	2,083.00
		/ rsf / month	/ rsf / year	
		/ rsf / month	/ rsf / year	
		/ rsf / month	/ rsf / year	
		/ rsf / month	/ rsf / year	

B. **Additional Rent:** In addition to the base monthly rent, Tenant will pay Landlord all other amounts, as provided by the attached (Check all that apply.):

- (1) Commercial Lease Addendum for Expense Reimbursement (TXR-2103)
- (2) Commercial Lease Addendum for Percentage Rent (TXR-2106)
- (3) Commercial Lease Addendum for Parking (TXR-2107)
- (4) \_\_\_\_\_

All amounts payable under the applicable addenda are deemed to be "rent" for the purposes of this lease.

C. **First Full Month's Rent:** The first full monthly rent is due on or before September 1, 2020 \_\_\_\_\_.

D. **Prorated Rent:** If the Commencement Date is on a day other than the first day of a month, Tenant will pay Landlord as prorated rent, an amount equal to the base monthly rent multiplied by the following fraction: the number of days from the Commencement Date to the first day of the following month divided by the number of days in the month in which this lease commences. The prorated rent is due on or before the Commencement Date.

E. **Place of Payment:** Tenant will remit all amounts due to Landlord under this lease to the following person at the place stated or to such other person or place as Landlord may later designate in writing:

Name: Ja-Cole L.P.  
 Address: 201 W Ellison St STE 202  
Burleson TX 76028

F. **Method of Payment:** Tenant must pay all rent timely without demand, deduction, or offset, except as permitted by law or this lease. If Tenant fails to timely pay any amounts due under this lease or if any

check of Tenant is returned to Landlord by the institution on which it was drawn, Landlord after providing written notice to Tenant may require Tenant to pay subsequent amounts that become due under this lease in certified funds. This paragraph does not limit Landlord from seeking other remedies under this lease for Tenant's failure to make timely payments with good funds.

G. Late Charges: If Landlord does not actually receive a rent payment at the designated place of payment within 5 days after the date it is due, Tenant will pay Landlord a late charge equal to 10% of the amount due. In this paragraph, the mailbox is not the agent for receipt for Landlord. The late charge is a cost associated with the collection of rent and Landlord's acceptance of a late charge does not waive Landlord's right to exercise remedies under Paragraph 20.

H. Returned Checks: Tenant will pay \$45.00 for each check Tenant tenders to Landlord which is returned by the institution on which it is drawn for any reason, plus any late charges until Landlord receives payment.

**5. SECURITY DEPOSIT:**

- A. Upon execution of this lease, Tenant will pay \$2,000.00 deposit. To Landlord as a security
- B. Landlord may apply the security deposit to any amounts owed by Tenant under this lease. If Landlord applies any part of the security deposit during any time this lease is in effect to amounts owed by Tenant, Tenant must, within 10 days after receipt of notice from Landlord, restore the security deposit to the amount stated.
- C. Within 60 days after Tenant surrenders the leased premises and provides Landlord written notice of Tenant's forwarding address, Landlord will refund the security deposit less any amounts applied toward amounts owed by Tenant or other charges authorized by this lease.

6. **TAXES:** Unless otherwise agreed by the parties, Landlord will pay all real property ad valorem taxes assessed against the leased premises.

**7. UTILITIES:**

A. The party designated below will pay for the following utility charges to the leased premises and any connection charges for the utilities. (Check all that apply.)

	<u>N/A</u>	<u>Landlord</u>	<u>Tenant</u>
(1) Water	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(2) Sewer	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(3) Electric	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(4) Gas	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(5) Telephone	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(6) Internet	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(7) Cable	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(8) Trash	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(9) _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(10) All other utilities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

B. The party responsible for the charges under Paragraph 7A will pay the charges directly to the utility service provider. The responsible party may select the utility service provider except that if Tenant selects the provider, any access or alterations to the Property or leased premises necessary for the utilities may be made only with Landlord's prior consent, which Landlord will not unreasonably withhold. If Landlord incurs any liability for utility or connection charges for which Tenant is responsible to pay

and Landlord pays such amount, Tenant will immediately upon written notice from Landlord reimburse Landlord such amount.

C. **Notice: Tenant should determine if all necessary utilities are available to the leased premises and are adequate for Tenant's intended use.**

D. **After-Hours HVAC Charges:** "HVAC services" means heating, ventilating, and air conditioning of the leased premises. (Check one box only.)

(1) Landlord is obligated to provide the HVAC services to the leased premises only during the Property's operating hours specified under Paragraph 9C.

(2) Landlord will provide the HVAC services to the leased premises during the operating hours specified under Paragraph 9C for no additional charge and will, at Tenant's request, provide HVAC services to the leased premises during other hours for an additional charge of \$ \_\_\_\_\_ per hour. Tenant will pay Landlord the charges under this paragraph immediately upon receipt of Landlord's invoice. Hourly charges are charged on a half-hour basis. Any partial hour will be rounded up to the next half hour. Tenant will comply with Landlord's procedures to make a request to provide the additional HVAC services under this paragraph.

(3) Tenant will pay for the HVAC services under this lease.

**8. INSURANCE:**

A. During all times this lease is in effect, Tenant must, at Tenant's expense, maintain in full force and effect from an insurer authorized to operate in Texas:

(1) public liability insurance naming Landlord as an additional insured with policy limits on an occurrence basis in a minimum amount of: (check only (a) or (b) below)

(a) \$1,000,000; or

(b) \$2,000,000.

If neither box is checked the minimum amount will be \$1,000,000.

(2) personal property damage insurance for the business operations being conducted in the leased premises and contents in the leased premises in an amount sufficient to replace such contents after a casualty loss; and

(3) business interruption insurance sufficient to pay 12 months of rent payments;

B. Before the Commencement Date, Tenant must provide Landlord with a copy of insurance certificates evidencing the required coverage. If the insurance coverage is renewed or changes in any manner or degree at any time this lease is in effect, Tenant must, not later than 10 days after the renewal or change, provide Landlord a copy of an insurance certificate evidencing the renewal or change.

C. If Tenant fails to maintain the required insurance in full force and effect at all times this lease is in effect, Landlord may:

(1) purchase insurance that will provide Landlord the same coverage as the required insurance and Tenant must immediately reimburse Landlord for such expense; or

(2) exercise Landlord's remedies under Paragraph 20.

D. Unless the parties agree otherwise, Landlord will maintain in full force and effect insurance for: (1) fire and extended coverage in an amount to cover the reasonable replacement cost of the improvements of the Property; and (2) any public liability insurance in an amount that Landlord determines reasonable and appropriate.

E. If there is an increase in Landlord's insurance premiums for the leased premises or Property or its contents that is caused by Tenant, Tenant's use of the leased premises, or any improvements made by or for Tenant, Tenant will, for each year this lease is in effect, pay Landlord the increase immediately

after Landlord notifies Tenant of the increase. Any charge to Tenant under this Paragraph 8E will be equal to the actual amount of the increase in Landlord's insurance premium.

**9. USE AND HOURS:**

- A. Tenant may use the leased premises for the following purpose and no other: AxoGen Corporation Distribution and Storage Services  
\_\_\_\_\_
- B. Unless otherwise specified in this lease, Tenant will operate and conduct its business in the leased premises during business hours that are typical of the industry in which Tenant represents it operates.
- C. The Property maintains operating hours of (*specify hours, days of week, and if inclusive or exclusive of weekends and holidays*) : 24 X 7 including Holidays and Weekends \_\_\_\_\_

**10. LEGAL COMPLIANCE:**

- A. Tenant may not use or permit any part of the leased premises or the Property to be used for:
  - (1) any activity which is a nuisance or is offensive, noisy, or dangerous;
  - (2) any activity that interferes with any other tenant's normal business operations or Landlord's management of the Property;
  - (3) any activity that violates any applicable law, regulation, zoning ordinance, restrictive covenant, governmental order, owners' association rules, tenants' association rules, Landlord's rules or regulations, or this lease;
  - (4) any hazardous activity that would require any insurance premium on the Property or leased premises to increase or that would void any such insurance;
  - (5) any activity that violates any applicable federal, state, or local law, including but not limited to those laws related to air quality, water quality, hazardous materials, wastewater, waste disposal, air emissions, or other environmental matters;
  - (6) the permanent or temporary storage of any hazardous material; or
  - (7) \_\_\_\_\_
- B. "Hazardous material" means any pollutant, toxic substance, hazardous waste, hazardous material, hazardous substance, solvent, or oil as defined by any federal, state, or local environmental law, regulation, ordinance, or rule existing as of the date of this lease or later enacted.
- C. Landlord does not represent or warrant that the leased premises or Property conform to applicable restrictions, zoning ordinances, setback lines, parking requirements, impervious ground cover ratio requirements, and other matters that may relate to Tenant's intended use. Tenant must satisfy itself that the leased premises may be used as Tenant intends by independently investigating all matters related to the use of the leased premises or Property. Tenant agrees that it is not relying on any warranty or representation made by Landlord, Landlord's agent, or any broker concerning the use of the leased premises or Property.

**11. SIGNS:**

- A. Tenant may not post or paint any signs or place any decoration outside the leased premises or on the Property without Landlord's written consent. Landlord may remove any unauthorized sign or decorations, and Tenant will promptly reimburse Landlord for its cost to remove any unauthorized sign or decorations.



- B. Any authorized sign must comply with all laws, restrictions, zoning ordinances, and any governmental order relating to signs on the leased premises or Property. Landlord may temporarily remove any authorized sign to complete repairs or alterations to the leased premises or the Property.
- C. By providing written notice to Tenant before this lease ends, Landlord may require Tenant, upon move out and at Tenant's expense, to remove, without damage to the Property or leased premises, any or all signs or decorations that were placed on the Property or leased premises by or at the request of Tenant. Any signs or decorations that Landlord does not require Tenant to remove and that are fixtures, become the property of the Landlord and must be surrendered to Landlord at the time this lease ends.

**12. ACCESS BY LANDLORD:**

- A. During Tenant's normal business hours Landlord may enter the leased premises for any reasonable purpose, including but not limited to purposes for repairs, maintenance, alterations, and showing the leased premises to prospective tenants or purchasers. Landlord may access the leased premises after Tenant's normal business hours if: (1) entry is made with Tenant's permission; or (2) entry is necessary to complete emergency repairs. Landlord will not unreasonably interfere with Tenant's business operations when accessing the leased premises.
- B. During the last 90 days of this lease, Landlord may place a "For Lease" or similarly worded sign on the leased premises.

**13. MOVE-IN CONDITION:** Tenant has inspected the leased premises and accepts it in its present (as-is) condition unless expressly noted otherwise in this lease or in an addendum. Landlord and any agent have made no express or implied warranties as to the condition or permitted use of the leased premises or Property.

**14. MOVE-OUT CONDITION AND FORFEITURE OF TENANT'S PERSONAL PROPERTY:**

- A. At the time this lease ends, Tenant will surrender the leased premises in the same condition as when received, except for normal wear and tear. Tenant will leave the leased premises in a clean condition free of all trash, debris, personal property, hazardous materials, and environmental contaminants.
- B. If Tenant leaves any personal property in the leased premises after Tenant surrenders possession of the leased premises, Landlord may: (1) require Tenant, at Tenant's expense, to remove the personal property by providing written notice to Tenant; or (2) retain such personal property as forfeited property to Landlord.
- C. "Surrender" means vacating the leased premises and returning all keys and access devices to Landlord. "Normal wear and tear" means deterioration that occurs without negligence, carelessness, accident, or abuse.
- D. By providing written notice to Tenant before this lease ends, Landlord may require Tenant, upon move out and at Tenant's expense, to remove, without damage to the Property or leased premises, any or all fixtures that were placed on the Property or leased premises by or at the request of Tenant. Any fixtures that Landlord does not require Tenant to remove become the property of the Landlord and must be surrendered to Landlord at the time this lease ends.

**15. MAINTENANCE AND REPAIRS:**

- A. Cleaning: Tenant must keep the leased premises clean and sanitary and promptly dispose of all garbage in appropriate receptacles.  
 Landlord  Tenant will provide, at its expense, janitorial services to the leased premises that are customary and ordinary for the property type. Tenant will maintain any grease trap on the Property which Tenant uses, including but not limited to periodic

emptying and cleaning, as well as making any modification to the grease trap that may be necessary to comply with any applicable law.

- B. **Repairs of Conditions Caused by a Party:** Each party must promptly repair a condition in need of repair that is caused, either intentionally or negligently, by that party or that party's guests, patrons, invitees, contractors or permitted subtenants.
- C. **Repair and Maintenance Responsibility:** Except as otherwise provided by this Paragraph 15, the party designated below, at its expense, is responsible to maintain and repair the following specified items in the leased premises (if any). The specified items must be maintained in clean and good operable condition. If a governmental regulation or order requires a modification to any of the specified items, the party designated to maintain the item must complete and pay the expense of the modification. The specified items include and relate only to real property in the leased premises. Tenant is responsible for the repair and maintenance of its personal property. *(Check all that apply.)*

	<u>N/A</u>	<u>Landlord</u>	<u>Tenant</u>
(1) Foundation, exterior walls, roof, and other structural components	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(2) Glass and windows	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(3) Fire protection equipment	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(4) Fire sprinkler systems	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(5) Exterior & overhead doors, including closure devices, molding, locks, and hardware	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(6) Grounds maintenance, including landscaping and irrigation systems	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(7) Interior doors, including closure devices, frames, molding, locks, and hardware	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(8) Parking areas and walks	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(9) Plumbing systems, drainage systems and sump pumps	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(10) Electrical systems, mechanical systems	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(11) Ballast and lamp replacement	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(12) Heating , Ventilation and Air Conditioning (HVAC) systems	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(13) HVAC system replacement	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(14) Signs and lighting:			
(a) Pylon	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Facia	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(c) Monument	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(d) Door/Suite	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(e) Other:	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(15) Extermination and pest control, excluding wood-destroying insects.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
(16) Fences and Gates	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(17) Storage yards and storage buildings	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(18) Wood-destroying insect treatment and repairs	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(19) Cranes and related systems	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(20) _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(21) _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(22) All other items and systems.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

D. **Repair Persons:** Repairs must be completed by trained, qualified, and insured repair persons.

- E. HVAC Service Contract: If Tenant maintains the HVAC system under Paragraph 15C(12), Tenant  is  is not required to maintain, at its expense, a regularly scheduled maintenance and service contract for the HVAC system. The maintenance and service contract must be purchased from a HVAC maintenance company that regularly provides such contracts to similar properties. If Tenant fails to maintain a required HVAC maintenance and service contract in effect at all times during this lease, Landlord may do so and Tenant will reimburse Landlord for the expense of such maintenance and service contract or Landlord may exercise Landlord's remedies under Paragraph 20.
- F. Common Areas: Landlord will maintain any common areas in the Property in a manner as Landlord determines to be in the best interest of the Property. Landlord will maintain any elevator and signs in the common area. Landlord may change the size, dimension, and location of any common areas, provided that such change does not materially impair Tenant's use and access to the leased premises. Tenant has the non-exclusive license to use the common areas in compliance with Landlord's rules and regulations. Tenant may not solicit any business in the common areas or interfere with any other person's right to use the common areas. This paragraph does not apply if Paragraph 2A(2) applies.
- G. Notice of Repairs: Tenant must promptly notify Landlord of any item that is in need of repair and that is Landlord's responsibility to repair. All requests for repairs to Landlord must be in writing.
- H. Failure to Repair: Landlord must make a repair for which Landlord is responsible within a reasonable period of time after Tenant provides Landlord written notice of the needed repair. If Tenant fails to repair or maintain an item for which Tenant is responsible within 10 days after Landlord provides Tenant written notice of the needed repair or maintenance, Landlord may: (1) repair or maintain the item, without liability for any damage or loss to Tenant, and Tenant must immediately reimburse Landlord for the cost to repair or maintain; or (2) exercise Landlord's remedies under Paragraph 20.

**16. ALTERATIONS:**

- A. Tenant may not alter (including making any penetrations to the roof, exterior walls or foundation), improve, or add to the Property or the leased premises without Landlord's written consent. Landlord will not unreasonably withhold consent for the Tenant to make reasonable non-structural alterations, modifications, or improvements to the leased premises.
- B. Tenant may not alter any locks or any security devices on the Property or the leased premises without Landlord's consent. If Landlord authorizes the changing, addition, or rekeying of any locks or other security devices, Tenant must immediately deliver the new keys and access devices to Landlord.
- C. If a governmental order requires alteration or modification to the leased premises, the party obligated to maintain and repair the item to be modified or altered as designated in Paragraph 15 will, at its expense, modify or alter the item in compliance with the order and in compliance with Paragraphs 16A and 17.
- D. Any alterations, improvements, fixtures or additions to the Property or leased premises installed by either party during the term of this lease will become Landlord's property and must be surrendered to Landlord at the time this lease ends, except for those fixtures Landlord requires Tenant to remove under Paragraph 11 or 14 or if the parties agree otherwise in writing.

**17. LIENS:** Tenant may not do anything that will cause the title of the Property or leased premises to be encumbered in any way. If Tenant causes a lien to be filed against the Property or leased premises, Tenant will within 20 days after receipt of Landlord's demand: (1) pay the lien and have the lien released of record; or (2) take action to discharge the lien. Tenant will provide Landlord a copy of any release Tenant obtains pursuant to this paragraph.

**18. LIABILITY:** To the extent permitted by law, Landlord is NOT responsible to Tenant or Tenant's employees, patrons, guests, or invitees for any damages, injuries, or losses to person or property caused by:

- A. an act, omission, or neglect of: Tenant; Tenant's agent; Tenant's guest; Tenant's employees; Tenant's patrons; Tenant's invitees; or any other tenant on the Property;
- B. fire, flood, water leaks, ice, snow, hail, winds, explosion, smoke, riot, strike, interruption of utilities, theft, burglary, robbery, assault, vandalism, other persons, environmental contaminants, or other occurrences or casualty losses.

**19. INDEMNITY:** Each party will indemnify, defend, and hold the other party harmless from any property damage, personal injury, suits, actions, liabilities, damages, cost of repairs or service to the leased premises or Property, or any other loss caused, negligently or otherwise, by that party or that party's employees, patrons, guests, or invitees.

**20. DEFAULT:**

- A. If Landlord fails to comply with this lease within 30 days after Tenant notifies Landlord of Landlord's failure to comply, Landlord will be in default and Tenant may seek any remedy provided by law. If, however, Landlord's non-compliance reasonably requires more than 30 days to cure, Landlord will not be in default if the cure is commenced within the 30-day period and is diligently pursued.
- B. If Landlord does not actually receive at the place designated for payment any rent due under this lease within 5 days after it is due, Tenant will be in default. If Tenant fails to comply with this lease for any other reason within 10 days after Landlord notifies Tenant of its failure to comply, Tenant will be in default.
- C. If Tenant is in default, Landlord may, with at least 3 days written notice to Tenant: (i) terminate this lease, or (ii) terminate Tenant's right to occupy the leased premises without terminating this lease and may accelerate all rents which are payable during the remainder of this lease or any renewal period. Landlord will attempt to mitigate any damage or loss caused by Tenant's breach by using commercially reasonable means. If Tenant is in default, Tenant will be liable for:
- (1) any lost rent;
  - (2) Landlord's cost of reletting the leased premises, including brokerage fees, advertising fees, and other fees necessary to relet the leased premises;
  - (3) repairs to the leased premises for use beyond normal wear and tear;
  - (4) all Landlord's costs associated with eviction of Tenant, such as attorney's fees, court costs, and prejudgment interest;
  - (5) all Landlord's costs associated with collection of rent such as collection fees, late charges, and returned check charges;
  - (6) cost of removing any of Tenant's equipment or fixtures left on the leased premises or Property;
  - (7) cost to remove any trash, debris, personal property, hazardous materials, or environmental contaminants left by Tenant or Tenant's employees, patrons, guests, or invitees in the leased premises or Property;
  - (8) cost to replace any unreturned keys or access devices to the leased premises, parking areas, or Property; and
  - (9) any other recovery to which Landlord may be entitled under this lease or under law.

**21. ABANDONMENT, INTERRUPTION OF UTILITIES, REMOVAL OF PROPERTY, AND LOCKOUT:** Chapter 93 of the Texas Property Code governs the rights and obligations of the parties with regard to:(a) abandonment of the leased premises; (b) interruption of utilities; (c) removal of Tenant's property; and(d) "lock-out" of Tenant.

**22. HOLDOVER:** If Tenant fails to vacate the leased premises at the time this lease ends, Tenant will become a tenant-at-will and must vacate the leased premises immediately upon receipt of demand from Landlord. No holding over by Tenant, with or without the consent of Landlord, will extend this lease. Tenant will

indemnify Landlord and any prospective tenants for any and all damages caused by the holdover. Rent for any holdover period will be 150% of the base monthly rent plus any additional rent calculated on a daily basis and will be immediately due and payable daily without notice or demand.

**23. LANDLORD'S LIEN AND SECURITY INTEREST:** To secure Tenant's performance under this lease, Tenant grants to Landlord a lien and security interest against all of Tenant's nonexempt personal property that is in the leased premises or on the Property. This lease is a security agreement for the purposes of the Uniform Commercial Code. Landlord may file a financing statement to perfect Landlord's security interest under the Uniform Commercial Code.

**24. ASSIGNMENT AND SUBLETTING:** Landlord may assign this lease to any subsequent owner of the Property. Tenant may not assign this lease or sublet any part of the leased premises without Landlord's written consent. An assignment of this lease or subletting of the leased premises without Landlord's written consent is voidable by Landlord. If Tenant assigns this lease or sublets any part of the leased premises, Tenant will remain liable for all of Tenant's obligations under this lease regardless if the assignment or sublease is made with or without the consent of Landlord.

**25. RELOCATION:**

- A. By providing Tenant with not less than 90 days advanced written notice, Landlord may require Tenant to relocate to another location in the Property, provided that the other location is equal in size or larger than the leased premises then occupied by Tenant and contains similar leasehold improvements. Landlord will pay Tenant's reasonable out-of-pocket moving expenses for moving to the other location. "Moving expenses" means reasonable expenses payable to professional movers, utility companies for connection and disconnection fees, wiring companies for connecting and disconnecting Tenant's office equipment required by the relocation, and printing companies for reprinting Tenant's stationary and business cards. A relocation of Tenant will not change or affect any other provision of this lease that is then in effect, including rent and reimbursement amounts, except that the description of the suite or unit number will automatically be amended.
- B. Landlord may not require Tenant to relocate to another location in the Property without Tenant's prior consent.

**26. SUBORDINATION:**

- A. This lease and Tenant's leasehold interest are and will be subject, subordinate, and inferior to:
  - (1) any lien, encumbrance, or ground lease now or hereafter placed on the leased premises or the Property that Landlord authorizes;
  - (2) all advances made under any such lien, encumbrance, or ground lease;
  - (3) the interest payable on any such lien or encumbrance;
  - (4) any and all renewals and extensions of any such lien, encumbrance, or ground lease;
  - (5) any restrictive covenant affecting the leased premises or the Property; and
  - (6) the rights of any owners' association affecting the leased premises or Property.
- B. Tenant must, on demand, execute a subordination, attornment, and non-disturbance agreement that Landlord may request that Tenant execute, provided that such agreement is made on the condition that this lease and Tenant's rights under this lease are recognized by the lien-holder.

**27. ESTOPPEL CERTIFICATES & FINANCIAL INFORMATION:**

- A. Within 10 days after receipt of a written request from Landlord, Tenant will execute and deliver to Landlord an estoppel certificate that identifies the terms and conditions of this lease.

- B. Within 30 days after receipt of a written request from Landlord, Tenant will provide to Landlord Tenant's current financial information (balance sheet and income statement). Landlord may request the financial information no more frequently than once every 12 months.

**28. CASUALTY LOSS:**

- A. Tenant must immediately notify Landlord of any casualty loss in the leased premises. Within 20 days after receipt of Tenant's notice of a casualty loss, Landlord will notify Tenant if the leased premises are less than or more than 50% unusable, on a per square foot basis, and if Landlord can substantially restore the leased premises within 120 days after Tenant notifies Landlord of the casualty loss.
- B. If the leased premises are less than 50% unusable and Landlord can substantially restore the leased premises within 120 days after Tenant notifies Landlord of the casualty, Landlord will restore the leased premises to substantially the same condition as before the casualty. If Landlord fails to substantially restore within the time required, Tenant may terminate this lease.
- C. If the leased premises are more than 50% unusable and Landlord can substantially restore the leased premises within 120 days after Tenant notifies Landlord of the casualty, Landlord may: (1) terminate this lease; or (2) restore the leased premises to substantially the same condition as before the casualty. If Landlord chooses to restore and does not substantially restore the leased premises within the time required, Tenant may terminate this lease.
- D. If Landlord notifies Tenant that Landlord cannot substantially restore the leased premises within 120 days after Tenant notifies Landlord of the casualty loss, Landlord may: (1) choose not to restore and terminate this lease; or (2) choose to restore, notify Tenant of the estimated time to restore, and give Tenant the option to terminate this lease by notifying Landlord within 10 days.
- E. If this lease does not terminate because of a casualty loss, rent will be reduced from the date Tenant notifies Landlord of the casualty loss to the date the leased premises are substantially restored by an amount proportionate to the extent the leased premises are unusable.

**29. CONDEMNATION:** If after a condemnation or purchase in lieu of condemnation the leased premises are totally unusable for the purposes stated in this lease, this lease will terminate. If after a condemnation or purchase in lieu of condemnation the leased premises or Property are partially unusable for the purposes of this lease, this lease will continue and rent will be reduced in an amount proportionate to the extent the leased premises are unusable. Any condemnation award or proceeds in lieu of condemnation are the property of Landlord and Tenant has no claim to such proceeds or award. Tenant may seek compensation from the condemning authority for its moving expenses and damages to Tenant's personal property.

**30. ATTORNEY'S FEES:** Any person who is a prevailing party in any legal proceeding brought under or related to the transaction described in this lease is entitled to recover prejudgment interest, reasonable attorney's fees, and all other costs of litigation from the nonprevailing party.

**31. REPRESENTATIONS:**

- A. Tenant's statements in this lease and any application for rental are material representations relied upon by Landlord. Each party signing this lease represents that he or she is of legal age to enter into a binding contract and is authorized to sign the lease. If Tenant makes any misrepresentation in this lease or in any application for rental, Tenant is in default.
- B. Landlord is not aware of any material defect on the Property that would affect the health and safety of an ordinary person or any environmental hazard on or affecting the Property that would affect the

health or safety of an ordinary person, except: Landlord is not aware of any material Defects to the best of his knowledge. Landlord has fee simple ownership

C. Each party and each signatory to this lease represents that: (1) it is not a person named as a Specially Designated National and Blocked Person as defined in Presidential Executive Order 13224; (2) it is not acting, directly or indirectly, for or on behalf of a Specially Designated and Blocked Person; and (3) is not arranging or facilitating this lease or any transaction related to this lease for a Specially Designated and Blocked Person. Any party or any signatory to this lease who is a Specially Designated and Blocked person will indemnify and hold harmless any other person who relies on this representation and who suffers any claim, damage, loss, liability or expense as a result of this representation.

**32. BROKERS:**

A. The brokers to this lease are:

<b>Principal Broker:</b>	_____	<b>Cooperating Broker:</b>	_____
	RE/MAX Trinity		_____
Agent:	Michael Langford	Agent:	_____
Address:	2600 W 7th St. Suite 146	Address:	_____
	Fort Worth, TX 76107		_____
Phone & Fax:	(817)870-1600 (817)870-1611	Phone & Fax:	_____
E-mail:	michael@orrrealestate.com	E-mail:	_____
License No.:	0592278	License No.:	_____

Principal Broker: <i>(Check only one box)</i>	Cooperating Broker represents Tenant.
<input checked="" type="checkbox"/> represents Landlord only.	
<input type="checkbox"/> represents Tenant only.	
<input type="checkbox"/> is an intermediary between Landlord and Tenant.	

B. Fees:

- (1) Principal Broker's fee will be paid according to: *(Check only one box)*.
  - (a) a separate written commission agreement between Principal Broker and:
    - Landlord  Tenant.
  - (b) the attached Commercial Lease Addendum for Broker's Fee (TXR-2102).
- (2) Cooperating Broker's fee will be paid according to: *(Check only one box)*.
  - (a) a separate written commission agreement between Cooperating Broker and:
    - Principal Broker  Landlord  Tenant.
  - (b) the attached Commercial Lease Addendum for Broker's Fee (TXR-2102).

**33. ADDENDA:** Incorporated into this lease are the addenda, exhibits and other information marked in the Addenda and Exhibit section of the Table of Contents. If Landlord's Rules and Regulations are made part of this lease, Tenant agrees to comply with the Rules and Regulations as Landlord may, at its discretion, amend from time to time.

**34. NOTICES:** All notices under this lease must be in writing and are effective when hand-delivered, sent by mail, or sent by facsimile transmission to:

Landlord at: Ja-Cole LP.  
Address: PO Box 1088 Burleson, TX 76097

and a copy to: Phone: \_\_\_\_\_ Fax: \_\_\_\_\_  
Address: \_\_\_\_\_  
Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

Landlord also consents to receive notices by michael@orrealestate.com  
e-mail at: \_\_\_\_\_

Tenant at the leased premises, \_\_\_\_\_  
and a copy to: AxoGen Corporation  
Address: 13631 Progress Blvd, Suite 400, Alachua, FL 32615  
Phone: (352)262-0773 Fax: \_\_\_\_\_

Tenant also consents to receive notices by e-  
mail at: \_\_\_\_\_

**35. SPECIAL PROVISIONS:**

Owner is a Licensed Broker in the state of Texas.

**36. AGREEMENT OF PARTIES:**

- A. Entire Agreement: This lease contains the entire agreement between Landlord and Tenant and may not be changed except by written agreement.
- B. Binding Effect: This lease is binding upon and inures to the benefit of the parties and their respective heirs, executors, administrators, successors, and permitted assigns.
- C. Joint and Several: All Tenants are jointly and severally liable for all provisions of this lease. Any act or notice to, or refund to, or signature of, any one or more of the Tenants regarding any term of this lease, its renewal, or its termination is binding on all Tenants.
- D. Controlling Law: The laws of the State of Texas govern the interpretation, performance, and enforcement of this lease.
- E. Severable Clauses: If any clause in this lease is found invalid or unenforceable by a court of law, the remainder of this lease will not be affected and all other provisions of this lease will remain valid and enforceable.
- F. Waiver: Landlord's delay, waiver, or non-enforcement of acceleration, contractual or statutory lien, rental due date, or any other right will not be deemed a waiver of any other or subsequent breach by Tenant or any other term in this lease.



- G. Quiet Enjoyment: Provided that Tenant is not in default of this lease, Landlord covenants that Tenant will enjoy possession and use of the leased premises free from material interference.
- H. Force Majeure: If Landlord's performance of a term in this lease is delayed by strike, lock-out, shortage of material, governmental restriction, riot, flood, or any cause outside Landlord's control, the time for Landlord's performance will be abated until after the delay.
- I. Time: Time is of the essence. The parties require strict compliance with the times for performance.

**Brokers are not qualified to render legal advice, property inspections, surveys, engineering studies, environmental assessments, tax advice, or compliance inspections. The parties should seek experts to render such services. READ THIS LEASE CAREFULLY. If you do not understand the effect of this Lease, consult your attorney BEFORE signing.**

**Landlord:** Ja-Cole, L.P.

**Tenant:** AxoGen Corporation

By: Rob Orr

By: Mike Dorovan

By (signature) : /s/ Rob Orr  
Printed Name: Rob Orr  
Title: President Date: 10/5/2020

By (signature) : /s/ Mike Dorovan  
Printed Name: Mike Dorovan  
Title: V.P. Operations Date: 10-2-2020

By: \_\_\_\_\_

By: \_\_\_\_\_

By (signature) : \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

By (signature) : \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Title: \_\_\_\_\_ Date: \_\_\_\_\_

**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 officer 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 officer 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: October 30, 2020

/s/ Karen Zaderej  
Karen Zaderej  
Chief Executive Officer and  
President

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

I, Peter J. Mariani, 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 officer 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 officer 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: October 30, 2020

/s/ Peter J. Mariani

Peter J. Mariani

Chief Financial Officer

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**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 and President of the Company and Peter J. Mariani, 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: October 30, 2020

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

/s/ Peter J. Mariani  
Peter J. Mariani  
Chief Financial Officer  
(Principal Financial Officer)

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