NOVAGOLD RESOURCES INC
Form 10-Q
October 07, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended August 31, 2014

OR

o 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: 001-31913

NOVAGOLD RESOURCES INC.
(Exact Name of Registrant as Specified in Its Charter)

British Columbia (State or Other Jurisdiction of Incorporation or Organization)	N/A (I.R.S. Employer Identification No.)
789 West Pender Street, Suite 720 Vancouver, British Columbia Canada (Address of Principal Executive Offices)	V6C 1H2 (Zip Code)

(604) 669-6227
(Registrant’s Telephone Number, Including Area Code)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

As of October 6, 2014, the Company had 317,288,472 Common Shares, no par value, outstanding.

NOVAGOLD RESOURCES INC.

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This Quarterly Report on Form 10-Q contains forward-looking statements or information within the meaning of Canadian securities laws and the United States Private Securities Litigation Reform Act of 1995 concerning anticipated results and developments in our operations in future periods, planned exploration activities, the adequacy of our financial resources and other events or conditions that may occur in the future. These forward-looking statements may include statements regarding perceived merit of properties, exploration results and budgets, mineral reserves and resource estimates, work programs, capital expenditures, operating costs, cash flow estimates, production estimates and similar statements relating to the economic viability of a project, timelines, strategic plans, including our plans and expectations relating to the Donlin Gold and Galore Creek projects, completion of transactions, market prices for precious and base metals, or other statements that are not statements of fact. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. Statements concerning mineral resource estimates may also be deemed to constitute "forward-looking statements" to the extent that they involve estimates of the mineralization that will be encountered if the property is developed.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "str "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may" "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and simi expressions) are not statements of historical fact and may be forward-looking statements.

Forward-looking statements are based on a number of material assumptions, including those listed below, which could prove to be materially incorrect:

- our ability to achieve production at any of our mineral exploration and development properties;
- estimated capital costs, operating costs, production and economic returns;
- estimated metal pricing, metallurgy, mineability, marketability and operating and capital costs, together with other assumptions underlying our resource and reserve estimates;
- our expected ability to develop adequate infrastructure and that the cost of doing so will be reasonable;
- assumptions that all necessary permits and governmental approvals will be obtained;
- assumptions made in the interpretation of drill results, the geology, grade and continuity of our mineral deposits;
- our expectations regarding demand for equipment, skilled labor and services needed for exploration and development of mineral properties; and
- our activities will not be adversely disrupted or impeded by development, operating or regulatory risks.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation:

- uncertainty of whether there will ever be production at our mineral exploration and development properties;

- uncertainty of estimates of capital costs, operating costs, production and economic returns;
- uncertainties related to the assumptions underlying our resource and reserve estimates, such as metal pricing, metallurgy, mineability, marketability and operating and capital costs;
- risks related to our ability to commence production and generate material revenues or obtain adequate financing for our planned exploration and development activities;
- risks related to our ability to finance the development of our mineral properties through external financing, strategic alliances, the sale of property interests or otherwise;
- risks related to the third parties on which we depend for our exploration and development activities;
- dependence on cooperation of joint venture partners in exploration and development of properties;
- credit, liquidity, interest rate and currency risks;
- risks related to market events and general economic conditions;
- uncertainty related to inferred mineral resources;
- risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of our mineral deposits;
- risks related to lack of infrastructure required to develop, construct, and operate our mineral properties;
- mining and development risks, including risks related to infrastructure, accidents, equipment breakdowns, labor disputes or other unanticipated difficulties with, or interruptions in, development, construction or production;
- the risk that permits and governmental approvals necessary to develop and operate mines on our properties will not be available on a timely basis, subject to reasonable conditions, or at all;
- commodity price fluctuations;
- risks related to governmental regulation and permits, including environmental regulation;
- risks related to the need for reclamation activities on our properties and uncertainty of cost estimates related thereto;
- uncertainty related to title to our mineral properties;

- uncertainty related to unsettled aboriginal rights and title in British Columbia;
- our history of losses and expectation of future losses;
- uncertainty as to the outcome of potential litigation;
- uncertainty inherent in litigation including the effects of discovery of new evidence or advancement of new legal theories, the difficulty of predicting decisions of judges and juries and the possibility that decisions may be reversed on appeal;
- risks related to default under our unsecured convertible notes;
- risks related to our majority shareholder;
- risks related to increases in demand for equipment, skilled labor and services needed for exploration and development of mineral properties, and related cost increases;
- increased competition in the mining industry;
- our need to attract and retain qualified management and technical personnel;
- risks related to our current practice of not using hedging arrangements;
- uncertainty as to our ability to acquire additional commercially mineable mineral rights;
- risks related to the integration of potential new acquisitions into our existing operations;
- risks related to unknown liabilities in connection with acquisitions;
- risks related to conflicts of interests of some of the directors of the Company;
- risks related to global climate change;
- risks related to opposition to our operations at our mineral exploration and development properties from non-governmental organizations or civil society;
- uncertainty as to our ability to maintain the adequacy of internal control over financial reporting as per the requirements of the Sarbanes-Oxley Act; and
- increased regulatory compliance costs relating to the Dodd-Frank Act.

This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this Quarterly Report on Form 10-Q under the heading “Risk Factors” and elsewhere.

Our forward-looking statements contained in this Quarterly Report on Form 10-Q are based on the beliefs, expectations and opinions of management as of the date of this report. We do not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NOVAGOLD RESOURCES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, US dollars in thousands)

	At August 31, 2014	At November 30, 2013
ASSETS		
Cash and cash equivalents	$70,844	$81,262
Investments (note 4)	100,000	110,000
Other assets	3,303	5,549
Current assets	174,147	196,811
Investments (note 4)	1,394	1,280
Investment in affiliates (note 5)	299,694	307,455
Mineral properties	53,552	54,813
Deferred income taxes	9,021	9,728
Other assets	8,452	8,599
Total assets	$546,260	$578,686
LIABILITIES		
Accounts payable and accrued liabilities	$2,961	$3,492
Debt (note 6)	14,705	—
Derivative liabilities (note 7)	58	—
Other liabilities	747	861
Current liabilities	18,471	4,353
Debt (note 6)	75,165	85,298
Derivative liabilities (note 7)	—	83
Deferred income taxes	22,281	23,303
Total liabilities	115,917	113,037
Commitments and contingencies (note 14)		
EQUITY		
Common shares	1,936,336	1,933,953
Contributed surplus	72,237	66,811
Accumulated deficit	(1,633,000)	(1,599,619)
Accumulated other comprehensive income	54,770	64,504
Total equity	430,343	465,649
Total liabilities and equity	$546,260	$578,686

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on October 7, 2014. They are signed on the Company's behalf by:

/s/ Gregory A. Lang, Director	/s/ Anthony Walsh, Director

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NOVAGOLD RESOURCES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS
(Unaudited, US dollars in thousands except per share amounts)

	Three months ended August 31, 2014	Three months ended August 31, 2013	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Operating expenses:				
General and administrative (note 9)	$5,037	$5,239	$17,379	$20,233
Equity loss of affiliates (note 5)	5,709	10,106	12,946	21,827
Depreciation	9	10	27	29
Write-down of assets	—	516	—	516
	10,755	15,871	30,352	42,605
Loss from operations	(10,755)	(15,871)	(30,352)	(42,605)
Other income (expense):				
Interest income	183	240	649	686
Interest expense	(1,609)	(1,688)	(5,229)	(8,227)
Foreign exchange gain	173	29	1,521	8,841
Gain (loss) on derivative liabilities (note 7)	—	(12)	25	379
Write-down of marketable equity securities	—	(2,645)	—	(2,645)
Other	—	(15)	—	—
	(1,253)	(4,091)	(3,034)	(966)
Loss before income taxes	(12,008)	(19,962)	(33,386)	(43,571)
Income tax (expense) recovery	(1)	—	5	—
Net loss	$(12,009)	$(19,962)	$(33,381)	$(43,571)
Loss per common share				
Basic and diluted	$(0.04)	$(0.06)	$(0.11)	$(0.14)
Weighted average shares outstanding				
Basic and diluted (thousands)	317,288	316,639	317,175	312,284

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NOVAGOLD RESOURCES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, US dollars in thousands)

	Three months ended August 31,		Nine months ended August 31,	
	2014	2013	2014	2013
Net loss	$(12,009)	$(19,962)	$(33,381)	$(43,571)
Items that may be reclassified to Net loss:				
Unrealized gains (losses) on marketable securities				
Unrealized holding gains (losses) during period	26	(20)	135	(664)
Reclassification adjustment for losses included in net income	—	2,645	—	2,645
Net unrealized gain, net of $(1), $(3), $5 and $(30) tax expense (recovery)	26	2,625	135	1,981
Foreign currency translation adjustments	(1,157)	(6,083)	(9,869)	(31,029)
Other comprehensive loss	(1,131)	(3,458)	(9,734)	(29,048)
Comprehensive loss	$(13,140)	$(23,420)	$(43,115)	$(72,619)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NOVAGOLD RESOURCES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited, US dollars in thousands)

	Three months ended August 31, 2014	Three months ended August 31, 2013	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Operating activities:				
Net loss	$(12,009)	$(19,962)	$(33,381)	$(43,571)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	9	10	27	29
Deferred income taxes	1	—	(5)	—
Foreign exchange (gain) loss	(173)	(29)	(1,521)	(8,841)
Share-based compensation	1,886	1,791	8,451	8,773
Equity losses of affiliates	5,709	10,106	12,946	21,827
Loss (gain) on derivative liabilities	—	12	(25)	(379)
Write-down of assets	—	3,161	—	3,161
Other	1,379	1,497	4,189	6,471
Withholding tax paid on share-based compensation	—	—	(636)	(619)
Net change in operating assets and liabilities (note 11)	1,525	1,210	2,594	(1,147)
Net cash used in operations	(1,673)	(2,204)	(7,361)	(14,296)
Investing activities:				
Additions to property and equipment	—	—	(22)	—
Proceeds from term deposits	50,000	—	160,000	—
Purchases of term deposits	(45,000)	(110,000)	(150,000)	(110,000)
Funding of affiliates	(3,799)	(7,037)	(12,990)	(16,002)
Net cash provided from (used in) investing activities	1,201	(117,037)	(3,012)	(126,002)
Financing activities:				
Proceeds from share issuance, net	—	—	—	54,359
Repayment of debt	—	—	—	(72,821)
Net cash used in financing activities	—	—	—	(18,462)
Effect of exchange rate changes on cash	(13)	(17)	(45)	(187)
Decrease in cash and cash equivalents	(485)	(119,258)	(10,418)	(158,947)
Cash and cash equivalents at beginning of period	71,329	214,978	81,262	254,667
Cash and cash equivalents at end of period	$70,844	$95,720	$70,844	$95,720

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NOVAGOLD RESOURCES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EQUITY
(Unaudited, US dollars and shares in thousands)

	Common shares		Contributed	Accumulated	Accumulated other comprehensive	Total
	Shares	Amount	surplus	deficit	income	equity
November 30, 2012	279,927	$1,462,102	$454,260	$ (1,536,859)	$ 97,308	$476,811
Net loss	—	—	—	(62,760)	—	(62,760)
Other comprehensive loss	—	—	—	—	(32,804)	(32,804)
Warrants exercised	36,529	469,150	(397,052)	—	—	72,098
Share-based compensation and related share issuances	205	2,701	9,603	—	—	12,304
November 30, 2013	316,661	$1,933,953	$66,811	$ (1,599,619)	$ 64,504	$465,649
Net loss	—	—	—	(33,381)	—	(33,381)
Other comprehensive loss	—	—	—	—	(9,734)	(9,734)
Share-based compensation and related share issuances	627	2,383	5,426	—	—	7,809
August 31, 2014	317,288	$1,936,336	$72,237	$ (1,633,000)	$ 54,770	$430,343

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

NOVAGOLD RESOURCES INC. and its affiliates and subsidiaries (collectively, "NOVAGOLD" or the "Company") operates in the mining industry, focused on the exploration for and development of gold and copper mineral properties. The Company has no operations or realized revenues from its planned principal business purpose. The Company's principal assets include a 50% interest in the Donlin Gold project in Alaska, U.S.A. and a 50% interest in the Galore Creek project in British Columbia, Canada.

The Condensed Consolidated Interim Financial Statements of NOVAGOLD are unaudited. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. These interim statements should be read in conjunction with NOVAGOLD's Consolidated Financial Statements for the year ended November 30, 2013. The year-end balance sheet data was derived from the audited financial statements and certain information and footnote disclosures required by United States generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted.

The functional currency for the Company's Canadian operations is the Canadian dollar and the functional currency for the Company's U.S. operations is the U.S. dollar. References to "$" refer to United States currency and "C$" to Canadian currency.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently adopted accounting pronouncements

Development Stage Entities

In June 2014, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) guidance was issued eliminating the concept of a development stage entity (DSE) from U.S. GAAP and clarified that the disclosures under risks and uncertainties guidance are also applicable to these entities. Entities that are in their development stage are no longer required to present and disclose incremental information, such as inception-to-date information. The Company elected early application of the new standard applied retrospectively. Application of the new guidance had no impact on the consolidated financial position, results of operations or cash flows.

Recently issued accounting pronouncements

Presentation of Financial Statements – Going Concern

In August 2014, ASC guidance was issued that explicitly requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. This standard is effective for the Company's fiscal year ending November 30, 2017, and for annual periods and interim periods thereafter. Early application is permitted. The Company does not expect the updated guidance to have a material impact on the consolidated financial position, results of operations or cash flows.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, ASC guidance was issued to update the guidance on performance stock awards. The guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. This standard is effective for the Company's fiscal year beginning December 1, 2016. Early application is permitted. The Company does not expect the updated guidance to have a material impact on the consolidated financial position, results of operations or cash flows.

Revenue from Contracts with Customers

In May 2014, ASC guidance was issued to amend the guidance for revenue recognition to replace numerous, industry-specific requirements and to converge areas under this topic with those of the International Financial Reporting Standards. The guidance implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendments in this guidance are effective for the Company's fiscal year beginning December 1, 2017. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Early adoption is prohibited. The Company does not expect the updated guidance to have a significant impact on the consolidated financial position, results of operations or cash flows.

Discontinued Operations

In April 2014, ASC guidance was issued related to discontinued operations which changed the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. The updated guidance requires an entity to only classify discontinued operations due to a major strategic shift or a major effect on an entity's operations in the financial statements. The updated guidance will also require additional disclosures relating to discontinued operations. The update is effective prospectively for the Company's fiscal year beginning December 1, 2015. Early application is permitted. The Company does not expect the updated guidance to have an impact on the consolidated financial position, results of operations or cash flows.

NOTE 3 – SEGMENTED INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Chief Executive Officer. The Company has one operating segment in exploration and development of mineral properties. The Chief Executive Officer considers the business from a geographic perspective through the performance of our investments in affiliates. Segment information is provided on each of the material projects individually in Note 5.

NOTE 4 – INVESTMENTS

		At August 31, 2014		
	Cost	Unrealized		Fair Value
	Basis	Gain	Loss	Basis
Current:				
Term deposits	$100,000	$—	$—	$100,000
Long-term:				
Marketable equity securities	$1,040	$386	$(32)	$1,394

		At November 30, 2013		
	Cost	Unrealized		Fair Value
	Basis	Gain	Loss	Basis
Current:				
Term deposits	$110,000	$—	$—	$110,000
Long-term:				
Marketable equity securities	$1,067	$213	$—	$1,280

Term deposits are held at two Chartered Canadian banks with original maturities of less than 12 months. Marketable equity securities include available-for-sale investments in mineral exploration companies. At August 31, 2014 all unrealized losses were in a continuous loss position for less than 12 months. During the third quarter of 2013, the Company recognized a $2,645 write-down for other-than-temporary declines in the value of its marketable equity securities.

NOTE 5 – INVESTMENT IN AFFILIATES

	At August 31, 2014	At November 30, 2013
Donlin Gold LLC, Alaska, U.S.A	$1,417	$1,720
Galore Creek Partnership, British Columbia, Canada	298,277	305,735
	$299,694	$307,455

Donlin Gold LLC

On December 1, 2007, together with Barrick Gold US Inc. (“Barrick”), the Company formed a limited liability company (“Donlin Gold LLC”) to advance the Donlin Gold project in Alaska. Donlin Gold LLC has a board of four directors, with two directors selected by Barrick and two directors selected by the Company. All significant decisions related to Donlin Gold LLC require the approval of Barrick and the Company. The Company has a 50% interest in Donlin Gold LLC.

Changes in the Company’s 50% investment in Donlin Gold LLC are summarized as follows:

	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Balance – beginning of period	$1,720	$4,185
Funding	11,123	10,176
Share of losses	(11,426)	(11,109)
Balance – end of period	$1,417	$3,252

The following amounts represent the Company’s 50% share of the assets and liabilities of Donlin Gold LLC. Donlin Gold LLC has capitalized as Mineral Property the initial contribution of the Donlin Gold property with a carrying value of $64,000 resulting in a higher carrying value of the Mineral Property than the Company.

	At August 31, 2014	At November 30, 2013
Current assets: Cash, prepaid expenses and other receivables	$2,699	$3,390
Non-current assets: Property and equipment	446	541
Non-current assets: Mineral property	32,692	32,692
Current liabilities: Accounts payable and accrued liabilities	(1,728)	(2,211)
Non-current liabilities: Reclamation obligation	(692)	(692)
Net assets	$33,417	$33,720

Galore Creek Partnership

The Galore Creek project is owned by the Galore Creek Partnership (“Partnership”), a partnership in which wholly owned subsidiaries of NOVAGOLD and Teck Resources Limited (“Teck”) each own a 50% interest. The Partnership was formed in May 2007. Teck earned its 50% interest in the Partnership upon completion of its funding commitment of C$373,300 in June 2011. Commencing June 2011, the partners have funded the project costs on a 50/50 basis.

Changes in the Company's 50% investment in the Partnership are summarized as follows:

	Nine months ended August 31,	
	2014	2013
Balance – beginning of period	$305,735	$335,086
Funding	1,867	5,826
Share of losses	(1,520)	(10,718)
Exploration tax credit	(693)	—
Foreign currency translation	(7,112)	(20,049)
Balance – end of period	$298,277	$310,145

The following amounts represent the Company's 50% share of the assets and liabilities of the Partnership. As a result of recording the Company's investment in the Partnership at fair value in June 2011, the carrying value of the Company's 50% interest in the Partnership is higher than 50% of the book value of the Partnership. Therefore, the Company's investment in the Partnership does not equal 50% of the net assets recorded by the Partnership:

	At August 31, 2014	At November 30, 2013
Current assets: Cash, prepaid expenses and other receivables	$534	$377
Non-current assets: Property and equipment	268,297	274,314
Current liabilities: Accounts payable and accrued liabilities	(291)	(483)
Non-current liabilities: Payables and reclamation obligation	(8,700)	(8,533)
Net assets	$259,840	$265,675

Equity losses of affiliates

	Three months ended August 31,		Nine months ended August 31,	
	2014	2013	2014	2013
Donlin Gold LLC:				
Mineral property expenditures	$5,402	$4,527	$11,295	$10,947
Depreciation	37	54	131	162
	5,439	4,581	11,426	11,109
Galore Creek Partnership:				
Mineral property expenditures	62	3,329	390	4,261
Care and maintenance expense	208	635	1,130	1,685
Depreciation	—	1,561	—	4,772
	270	5,525	1,520	10,718
	$5,709	$10,106	$12,946	$21,827

NOTE 6 – DEBT

	At August 31,	At November

	2014	30, 2013
Convertible notes	$14,705	$13,570
Promissory note	75,165	71,728
	89,870	85,298
Less: current portion	(14,705)	—
	$75,165	$85,298

Scheduled minimum debt repayments are $nil for the remainder of 2014, $15,829 in 2015, $nil in 2016 through 2018, and $75,165 thereafter. The carrying value of the debt approximates fair value.

Convertible notes

The remaining $15,829 principal amount of the original $95,000 in unsecured senior convertible notes issued by the Company on March 26, 2008 are due on May 1, 2015 and have been classified as a current liability. Changes in the carrying value of the Convertible notes ("Notes") are summarized as follows:

	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Balance – beginning of period	$13,570	$73,606
Repurchases of Notes	—	(58,017)
Accretion expense	1,135	2,942
Balance – end of period	$14,705	$18,531

The following table provides the net amounts recognized in the Condensed Consolidated Balance Sheets related to the Notes:

	At August 31, 2014	At November 30, 2013
Principal amount	$15,829	$15,829
Unamortized debt discount	(1,124)	(2,259)
	14,705	13,570
Embedded derivative	58	83
Net carrying amount	$14,763	$13,653

Promissory note

As part of the Donlin Gold LLC agreement, the Company agreed to reimburse Barrick for a portion of their expenditures incurred from April 1, 2006 to November 30, 2007 out of the Company's share of future mine production cash flow. The Company has a promissory note payable to Barrick for $51,600, plus interest at a rate of US prime plus 2%, amounting to $23,565 in accrued interest since the inception of the promissory note.

NOTE 7 – DERIVATIVE LIABILITIES

Convertible notes – Embedded derivative

The conversion price of the Notes is denominated in U.S. dollars, a currency different from the functional currency of the parent Company. Therefore, an embedded derivative liability is recorded at fair value and re-measured each period with the movement being recorded as a gain or loss in Net income (loss). Pursuant to the terms and indenture governing the Notes, holders had the opportunity to require the Company to purchase for cash all or a portion of their Notes ("Put Option") on May 1, 2013. The fair value of the embedded derivative prior to the expiry of the Put Option was composed of the conversion feature of the Note and the Put Option. The conversion feature on the remaining Notes is valued using the Black-Scholes pricing model and is considered a Level 3 financial instrument in the fair value hierarchy as the value model has significant unobservable inputs.

	Nine months ended August 31,	
	2014	2013
Balance – beginning of period	$83	$17,934
Repurchases of Notes	—	(14,804)
Gain on embedded derivative liabilities for the period	(25)	(2,840)
Balance – end of period	$58	$290

Warrants – Derivative

The Company's functional currency is the Canadian dollar. Warrants were issued with an exercise price denominated in U.S. dollars. The Company determined that such warrants with an exercise price denominated in a currency that is different from the entity's functional currency were classified as a derivative liability based on the evaluation of the warrants' settlement provisions, and carried at their fair value. Any changes in the fair value from period to period have been recorded as a gain or loss in net income (loss).

In the first quarter of 2013, all of NOVAGOLD's remaining warrants were exercised and the Company realized a loss on derivative liability of $2,461 for the year ended November 30, 2013.

NOTE 8 – FAIR VALUE ACCOUNTING

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the significance of the inputs used in making the measurement. The three levels of the fair value hierarchy are as follows:

Level 1 —	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 —	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level 3 —	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

	Fair value at August 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$70,844	$—	$70,844	$—
Term deposits	100,000	—	100,000	—
Marketable equity securities	1,394	1,394	—	—
Liabilities:				
Embedded derivative liabilities (note 7)	58	—	—	58

	Fair value at November 30, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$81,262	$—	$81,262	$—
Term deposits	110,000	—	110,000	—
Marketable equity securities	1,280	1,280	—	—
Liabilities:				
Embedded derivative liabilities (note 7)	83	—	—	83

The Company's cash equivalents and term deposits are held with two Chartered Canadian banks, each with an S&P rating of AA-. The cash equivalents and term deposits are classified as Level 2 of the fair value hierarchy as they are owed to the Company by the Canadian banks and are not traded in an active market.

The Company's marketable equity securities are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy. The fair value of the marketable equity securities is calculated as the quoted market price of the marketable equity security multiplied by the quantity of shares held by the Company.

The embedded derivative is valued using a Black-Scholes pricing model and is considered a Level 3 financial instrument in the fair value hierarchy because the valuation model has significant unobservable inputs.

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended August 31,		Nine months ended August 31,	
	2014	2013	2014	2013
Salaries	$1,509	$1,626	$4,612	$4,262
Share-based compensation	1,886	1,791	8,451	8,773
Office expense	749	1,096	1,917	3,617
Professional fees	505	524	1,287	2,452
Corporate development	388	202	1,112	1,129
	$5,037	$5,239	$17,379	$20,233

NOTE 10 – SHARE-BASED COMPENSATION

	Three months ended August 31,		Nine months ended August 31,	
	2014	2013	2014	2013
Stock options	$795	$718	$5,362	$5,576
Performance share unit plan	1,045	1,015	2,943	3,019
Deferred share unit plan	46	58	146	178
	$1,886	$1,791	$8,451	$8,773

NOTE 11 – CHANGE IN OPERATING ASSETS AND LIABILITIES

	Three months ended August 31,		Nine months ended August 31,	
	2014	2013	2014	2013
Decrease in receivables, deposits and prepaid amounts	$481	$1,188	$2,985	$1,582
Increase (decrease) in accounts payable and accrued liabilities	1,044	22	(391)	(2,729)
	$1,525	$1,210	$2,594	$(1,147)

NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	August 31, 2014	November 30, 2013
Unrealized net gain on marketable securities, net of $34 and $29 tax expense, respectively	$319	$184
Foreign currency translation adjustments	54,451	64,320
	$54,770	$64,504

NOTE 13 – RELATED PARTY TRANSACTIONS

In the first nine months of 2014, the Company provided management services to Donlin Gold LLC for $207 ($201 in the first nine months of 2013); office rental and services to Galore Creek Partnership for $300 ($318 in the first nine months of 2013); and management and office administration services to NovaCopper for $nil ($175 in the first nine months of 2013).

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The Company has the following amounts receivable from related parties:

	August 31, 2014	November 30, 2013
Current:		
Donlin Gold LLC	$39	$1,750
Galore Creek Partnership	352	394
	$391	$2,144
Long-term:		
Galore Creek Partnership	$4,036	$4,132

NOTE 14 – COMMITMENTS AND CONTINGENCIES

General

The Company follows ASC guidance in determining its accruals and disclosures with respect to loss contingencies. Accordingly, estimated losses from loss contingencies are accrued by a charge to income when information available prior to issuance of the financial statements indicates that it is probable that a liability could be incurred and the amount of the loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is at least reasonably possible that a material loss could be incurred.

Obligations under operating leases

The Company leases certain assets, such as office equipment and office facilities, under operating leases expiring at various dates through 2020. Future minimum annual lease payments are $142 in the remainder of 2014, $429 in 2015, $389 in 2016 and $328 in 2017, totaling $1,288.

NOTE 15 – SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended August 31,	
	2014	2013
Interest received	$494	$452
Interest paid	$435	$2,613
Income taxes paid	$295	$—

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations constitutes management's review of the factors that affected our financial and operating performance for the three and nine month periods ended August 31, 2014 and 2013. This discussion should be read in conjunction with the condensed consolidated interim financial statements and notes thereto contained elsewhere in this report.

Overview

Our operations primarily relate to the delivery of project milestones, including the achievement of various technical, environmental, sustainable development, economic and legal objectives, obtaining necessary permits, completion of feasibility studies, preparation of engineering designs and the financing to fund these objectives.

Our goals for 2014 include:

- Advance permitting of the Donlin Gold project.
- Maintain a healthy balance sheet.
- Undertake Galore Creek technical studies to build on successful 2012 and 2013 drill results.
- Evaluate opportunities to monetize the value of Galore Creek.
- Maintain an effective corporate social responsibility program.

Third quarter highlights

Donlin Gold

In the third quarter of 2014, permitting activities continued at Donlin Gold and were mainly focused on the preliminary draft Environmental Impact Statement (EIS). The EIS is required by the National Environmental Policy Act (NEPA), the act that governs the process by which most major projects in the United States are evaluated. The EIS is also, in large part, a determining factor in the overall permitting timeline which, for Donlin Gold, commenced in 2012 and is anticipated to take approximately four years to complete. This document is comprised of four main sections which:

- Outline of the purpose and the need for the proposed mine. The management of Donlin Gold LLC and its Native Corporation partners, Calista Corporation and The Kuskokwim Corporation (TKC), jointly contributed to the preparation of this section which highlights the need for the development of the proposed mine and the benefit it would bring to its stakeholders.

- Identify and analyze a reasonable range of alternatives to the mine development proposed by Donlin Gold which comprise variations on certain mine site facility designs, as well as local transportation and power supply options.

- Involve the preparation of an environmental analysis of the proposed action and reasonable alternatives (including a no action alternative), which identifies and characterizes the potential biological, social, and cultural impacts relative to the existing baseline conditions. This portion normally constitutes the most extensive part of the EIS.

- Describe potential mitigation measures intended to reduce or eliminate the environmental impacts described in the impact analysis section.

During the previous quarter, the U.S. Army Corps of Engineers (the "Corps"), the lead agency for the Donlin Gold EIS, and cooperating agencies' completed the alternatives identification, establishing a reasonable range of alternatives to be evaluated in the EIS. Outstanding environmental baseline data and analysis required to complete the preliminary draft EIS were compiled and provided to the Corps during the third quarter. Once complete, the agencies will review the preliminary draft EIS and provide input which will then be considered and incorporated by the Corps into the draft EIS, which is on schedule to be issued for public comment in 2015. The sections of the draft EIS under preparation include the analysis of the potential environmental impacts and the alternatives selected for detailed analysis. The EIS is in large part the determining factor in the overall permitting timeline which, for Donlin Gold, commenced in 2012 and is anticipated to take approximately four years to complete.

In addition, Donlin Gold LLC continues to work simultaneously with other permitting agencies on other major permit applications, such as air quality, water discharge and usage, gas pipeline, wetlands, rights-of-way, and dam safety.

Beyond permitting, on September 4, 2014 the Company announced that it is investing in the National Fish and Wildlife Foundation's (NFWF) Alaska Fish and Wildlife Fund conservation initiative designed to protect, conserve and restore fish and wildlife in Alaska. Some of the proposed projects and locally-led efforts will be in the Yukon-Kuskokwim (Y-K) region where the Donlin project is located. The program will integrate NFWF's expertise with Donlin Gold's wealth of baseline data and regional experience and ecological knowledge of Native Alaskans to enhance fish and wildlife in Alaska for many years to come.

On June 9, 2014 the Company announced that Donlin Gold LLC and TKC reached an updated long term Surface Use Agreement for the Donlin Gold project. This agreement has been extended to coincide with the term of the Exploration and Mining Lease with the Calista Corporation and continues so long as production continues at the project. This agreement:

- Provides direct compensation to TKC through payments for project milestones, annual surface use and mine operation.

- Includes a coordinated and consultative approach between Donlin Gold and TKC regarding annual project planning, reclamation as well as preparation of a subsistence harvest plan for affected surface lands.

- Gives preference to TKC for contracts, hiring and training TKC shareholders, as well as funding scholarships and working with federal, state and local entities to help create and fund a training facility in the region.

- Commits to an exclusive contract with TKC for the construction and operations of an upriver port site.

Donlin Gold remains actively engaged in sponsorship activities at the community level, supporting local youth in leadership endeavors, visiting communities in the Y-K region and executing on its workforce development strategy. Year to date, the Donlin Gold team has visited a total of 26 villages and fish camps in the Y-K region. The village visits included project updates to the communities in English and Yup'ik, as well as school visits to speak to students about education, training, future employment opportunities and overall workforce development needs. The annual visits to the fish camps in the Y-K region raise safety awareness and distribute life jackets ahead of the fishing season.

Our share of cash funding for Donlin Gold was $3.4 million in the third quarter of 2014, $9.4 million year-to-date. For the full year, we continue to expect to spend approximately $12 million to fund our share of Donlin Gold activities, primarily for continued permitting and community development.

We record our interest in the Donlin Gold project as an equity investment, which results in our 50% share of Donlin Gold's expenses being recorded in the income statement as an operating loss. The investment amount recorded on the balance sheet primarily represents unused funds advanced to Donlin Gold.

Galore Creek

The focus in 2014 is to incorporate the drilling results from the 2012 and 2013 programs, including the discovery of the Legacy zone, into a model to advance mine planning and project design. As a follow-up to the workshops conducted in the second quarter, activities in the third quarter focused on narrowing down possible scenarios for an integrated mining, waste disposal and water management plan. This work also included the review of the various input parameters used in the evaluation matrix.

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We expect this effort to further improve the value and marketability of the Galore Creek project, which we continue to work on monetizing, in whole or in part, to strengthen our balance sheet and focus primarily on the permitting of Donlin Gold.

Galore Creek remains active in the community, sponsoring local fundraising events, supporting Tahltan literacy camps, as well as providing assistance and funding for research on the Tahltan language dictionary.

Our share of cash funding for the Galore Creek partnership was $0.4 million in the third quarter of 2014, $1.9 million year-to-date, primarily for technical studies, community commitments, environmental monitoring, severance as well as site care and maintenance. For the full year, we continue to expect to spend approximately $2.5 million to fund our share of Galore Creek's activities.

We record our interest in the Galore Creek partnership as an equity investment, which results in our 50% share of expenses being recorded in the income statement as an operating loss. The investment amount recorded on the balance sheet primarily represents the fair value of the Company's investment in the Galore Creek partnership in 2011, recorded upon Teck's completion of their earn-in, and unused funds advanced to the partnership.

Outlook

We do not currently generate operating cash flows. At August 31, 2014, we had cash and cash equivalents of $70.8 million and term deposits of $100.0 million. At present, we believe that these balances are sufficient to cover the anticipated funding at the Donlin Gold and Galore Creek projects, general and administrative costs through completion of permitting at the Donlin Gold project, and repayment of the unsecured senior convertible notes due on May 1, 2015. In 2014, we continue to expect to spend approximately $15 million to fund our share of expenditures at the Donlin Gold and Galore Creek projects and $15 million for general and administrative costs, interest, working capital and other corporate purposes.

Additional capital will be necessary if permits are received for the Donlin Gold project and a decision to commence construction is reached. Future financings to fund construction are anticipated through debt financing, equity financing, project specific debt, or other means. Our continued operations are dependent on our ability to obtain additional financing or to generate future cash flows. However, there can be no assurance that we will be successful in our efforts to raise additional capital. For further information, see the risk factors in our Annual Report on Form 10-K for the year ended November 30, 2013, as filed with the SEC and the Canadian Securities Regulators on February 12, 2014.

Summary of Consolidated Financial Performance

	Three months ended August 31,		Nine months ended August 31,	
($ thousands, except per share)	2014	2013	2014	2013
Loss from operations	$(10,755)	$(15,871)	$(30,352)	$(42,605)
Net loss	$(12,009)	$(19,962)	$(33,381)	$(43,571)
Net loss per common share				
Basic and diluted	$(0.04)	$(0.06)	$(0.11)	$(0.14)

Results of Operations

Third quarter 2014 compared to 2013

Loss from operations decreased 32% from $15.9 million in 2013 to $10.8 million in 2014. The decrease resulted from lower general and administrative expense and lower losses from equity investments in the Donlin Gold and Galore Creek projects. General and administrative expense decreased by $0.2 million due to lower office rent and salary costs, partially offset by hig style="DISPLAY: inline; FONT-FAMILY: times new roman; FONT-SIZE: 10pt">Outstanding at September 30, 2012

Outstanding at September 30, 2012 (continued)	12,642,833	$1.28	8.0	$21,096,473
Vested at September 30, 2012	4,953,133	$1.06	6.4	$9,362,856
Vested and expected to vest at September 30, 2012 (a)	12,430,387	$1.27	8.0	$20,823,954

(a) Includes forfeiture adjusted unvested shares.

The intrinsic value of the options exercised during the three months ended September 30, 2012, was approximately $442,230.

Following is a summary of stock options outstanding and exercisable at September 30, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number outstanding	Weighted-Average Remaining Contractual Term (in years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$0.50	505,000	2.2	$ 0.50	505,000	$ 0.50
$0.65 - $1.00	2,097,500	6.6	$ 0.72	1,946,666	$ 0.72
$1.04 - $1.80	8,840,333	8.5	$ 1.29	2,471,467	$ 1.43
$1.99 - $2.84	1,200,000	9.6	$ 2.50	30,000	$ 2.40
	12,642,833	8.0	$ 1.28	4,953,133	$ 1.06

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Total unrecognized compensation expense related to granted stock options at September 30, 2012, was approximately $4,989,000 and is expected to be recognized over a weighted-average period of 2.7 years.

The fair value of options granted by the Company is estimated on the date of grant using the Black-Scholes-Merton option-pricing model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. Expected volatilities are based on historical volatility of peer companies and other factors estimated over the expected term of the options. The term of employee options granted is derived using the "simplified method" which computes expected term as the average of the sum of the vesting term plus the contract term. The term for non-employee options is generally based upon the contractual term of the option. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term or contractual term as described.

The assumptions used in calculating the fair value of options using the Black-Scholes-Merton option-pricing model are set forth in the following table:

	Nine months ended September 30,	
	2012	2011
Expected volatility	45.75 - 64.3 %	57.3 - 57.8 %
Expected life (in years)	6	6
Expected dividend yield	—	—
Risk-free interest rate	0.62% - 1.62 %	0.93% - 2.24 %

The weighted-average grant date fair value for options granted during the nine months ended September 30, 2012 was approximately $0.89.

Warrants

The Company grants common stock warrants in connection with equity share purchases by investors as an additional incentive for providing long term equity capital to the Company and as additional compensation to consultants and advisors. The warrants are granted at negotiated prices in connection with the equity share purchases and at the market price of the common stock in other instances. The warrants have been issued for terms of five years.

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Following is a summary of warrants outstanding at September 30, 2012:

	Number of Warrants	Weighted-Average Exercise Price per Warrant	Number of Contingent Warrants	Weighted-Average Exercise Price per Contingent Warrant
Warrants outstanding at January 1, 2012	9,388,817	$ 1.00	5,245,484	$ 0.01
Warrants issued:				
Vested contingent warrants related to private placement of common stock	1,672,743	$ 0.01	(1,672,743)	$ 0.01
Vested contingent warrants related to line of credit with related party	325,000	$ 0.01	(325,000)	$ 0.01
Contingent warrants voided	—	—	(3,247,741)	$ 0.01
Warrants exercised:				
Contingent warrants related to convertible note	(1,329,687)	$ 0.01	—	—
Contingent warrants related to private placement of common stock	(1,476,365)	$ 0.01	—	—
Contingent warrants related to line of credit with related party	(325,000)	$ 0.01	—	—
Callable warrants	(3,288,733)	$ 1.50		
Other	(1,653,568)	$ 0.60		
Warrants redeemed for cashless exercises	(14,789)	$ 0.60	—	—
Repurchased callable warrants	(56,750) (a)	$ 1.50	—	—
Warrants outstanding at September 30, 2012	3,241,668	$ 1.04	—	

(a) The Company repurchased the callable warrants at $0.01 per share.

Warrants may be exercised in whole or in part by:

- notice given by the holder accompanied by payment of an amount equal to the warrant exercise price multiplied by the number of warrant shares being purchased; or

- election by the holder to exchange the warrant (or portion thereof) for that number of shares equal to the product of (a) the number of shares issuable upon exercise of the warrant (or portion) and (b) a fraction, (x) the numerator of which is the market price of the shares at the time of exercise minus the warrant exercise price per share at the time of exercise and (y) the denominator of which is the market price per share at the time of exercise.

These warrants are not mandatorily redeemable, do not obligate the Company to repurchase its equity shares by transferring assets or issue a variable number of shares.

The warrants require that the Company deliver shares as part of a physical settlement or a net-share settlement, at the option of the holder, and do not provide for a net-cash settlement.

All of our warrants are classified as equity as of September 30, 2012 and December 31, 2011.

11. Income taxes

The Company has incurred net losses since its inception and, therefore, no current income tax liabilities have been incurred for the periods presented. Due to the Company's losses, management has established a valuation allowance equal to the amount of net deferred tax assets since management cannot determine that realization of these benefits is more likely than not.

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12. Contractual Commitments

The Company has entered into operating lease agreements for facility space and equipment, and employment agreements with some key employees acquired with Surgical Biologics. In addition, the Company has minimum royalty payments due in conjunction with one of its licenses. The estimated annual lease, royalty, and employment agreement expense are as follows:

12-month period ended September 30,		
2013	$	615,299
2014		256,516
Thereafter		72,907
	$	944,722

13. Subsequent Events

None.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

MiMedx Group, Inc. ("MiMedx Group") is an integrated developer, manufacturer and marketer of patent-protected regenerative biomaterials and bioimplants processed from human amniotic membrane.

"Innovations in Regenerative Biomaterials" is the framework behind our mission to give physicians products and tissues to help the body heal itself. Our biomaterial platform technologies include the device technologies HydroFix® and CollaFix™, and our tissue technologies, AmnioFix® and EpiFix®. Our tissue technologies, processed from the human amniotic membrane, utilize our proprietary Purion® process that was developed by our wholly-owned subsidiary, Surgical Biologics, to produce a safe, effective and minimally manipulated implant.

Recent Events

During the period the Company raised approximately $4,933,100 from Callable Warrants issued in the October 2010 Private Placement resulting in a net cash balance of approximately $7,621,226 as of September 30, 2012.

Also during the period the Company Voided a total of approximately 3,245,000 Second Contingent Warrants issued in the October 2010 Private Placement and in connection with the Senior Secured Promissory Notes.

On July 5, 2012, the Company paid approximately $177,126 in cash and issued 893,267 shares of common stock in full payment of the Convertible Secured Promissory Notes related to the acquisition of Surgical Biologics.

Results of Operations comparison for the Three Months Ended September 30, 2012 to the Three Months Ended September 30, 2011

Revenue

Total revenue increased approximately $5,802,000 to $7,954,000 for the three months ended September 30, 2012, as compared to $2,152,000 for the three months ended September 30, 2011. The increase in revenue as compared to the prior year is due primarily to increased sales of our amniotic membrane tissue products, EpiFix® and

AmnioFix®. The Company experienced strong demand in the Spine, Wound Care, Ophthalmology, Sports Medicine and Orthopedics markets. Increased demand for the Spine, Orthopedic and Sports Medicine allografts was a result of growth in business with the Company's indirect sales force which consists of independent sales agents and distributors. This growth over the prior period was driven by the addition of certain distributors as well as the continued expansion and growth of our existing distribution network. The growth in Wound and to a lesser degree Sports Medicine was driven by the addition of a direct sales force in the period focusing on Government accounts. The sales executives hired have extensive experience in the wound care sector. This is the first quarter where wound care market shipments exceeded spine, orthopedics and sports medicine since the acquisition of Surgical Biologics.

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Tissue Processing Costs and Cost of Products Sold

Cost of products as a percentage of revenue improved to 17.9% from 41.2% as compared to prior year. The improvement was due to the increase in revenue as well as product mix. The Company more than doubled the number of tissue processors and increased the number of recovery technicians in support of the increased demand for tissue. Processing efficiency was impacted by the need to train the new employees but is expected to improve in subsequent periods. Personnel costs represent approximately $905,000 of total manufacturing, quality assurance and regulatory spending for the three months ended September 30, 2012.

Beginning in 2012, the Company decided to allocate both depreciation expense and share-based compensation to each functional area. These expenses were reclassified in the prior year to maintain comparability. The amount of depreciation expense in cost of products sold was approximately $42,000 and $26,000, and the amount of share-based compensation in cost of products sold was $12,000 and $18,000 for the three months ended September 30, 2012 and 2011, respectively.

Research and Development Expenses

Our research and development expenses (“R&D expenses”) increased approximately $277,000 or 49.4% to $839,000 during the three months ended September 30, 2012, compared to approximately $562,000 in the prior year. The increase is primarily related to increased investments in clinical trials and patent related costs. During the most recent quarter, the Company spent approximately $165,000 on clinical studies. Approximately $209,000, or 24.9%, of R&D expenses for the three months ended September 30, 2012 were attributable to personnel costs, compared to approximately $199,000 or 35.5% for the three months ended September 30, 2011. Additionally, as described above in Cost of Products Sold, beginning in 2012, we decided to allocate both depreciation expense and share-based compensation expense to other functional areas, and have reclassified prior year amounts to maintain comparability. During the three months ended September 30, 2012 and 2011, we recorded approximately $30,000 and $31,000 for depreciation expense and approximately $71,000 and $45,000 for share-based compensation expense, respectively, to research and development.

Our research and development expenses consist primarily of internal personnel costs, fees paid to external consultants, and supplies and instruments used in our laboratories. During the quarter, the Company was granted 1 US patent for the hydrogel technology and 2 European patents for the collagen technology. Additionally, we filed 11 applications during the most recent quarter, including 1 non-provisional application for collagen technology, 6 non-provisional applications for amnion technology, and 4 provisional applications for amnion.

Selling, General and Administrative Expenses

Selling, General and Administrative expenses for the three months ended September 30, 2012, increased approximately $3,850,000 to $6,206,000 compared to $2,356,000 for the three months ended September 30, 2011. Selling expense increases were driven by costs associated with building our direct sales organization for government accounts and to a lesser degree our commercial direct sales organization as well as increased commissions due to higher sales volume. Increased spending on support costs related to medical reimbursement including our 24-hour reimbursement hotline, our information technology infrastructure to help manage the growth of the business, increased share based compensation expense and a provision for anticipated costs associated with its management incentive program. Selling, general and administrative expenses consist of personnel costs, professional fees, sales commissions, sales training costs, industry trade show fees and expenses, product promotions and product literature costs, facilities costs and other sales, marketing and administrative costs, depreciation and amortization, and share-based compensation. Personnel costs represent approximately $3,228,000 or 52.0% of total Selling, General and Administrative expenses in the third quarter of 2012.

Historically, the Company has reported depreciation and share-based compensation expense as part of selling, general and administrative expense. The Company decided to report these expenses in each functional area in order to more accurately present all of the costs attributable to each functional area. During the three months ended September 30, 2012 and 2011, we recorded a total of approximately $123,000 and $99,000 in depreciation expense allocated to each functional area per the table below. The overall $24,000 increase in depreciation was attributable to purchases of production equipment to support the revenue growth. We depreciate our assets on a straight-line basis, principally over five to seven years.

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The following table shows the allocation of depreciation for the three months ended September 30, 2012 and 2011, to operating departments:

	Three Months Ended September 30,	
Depreciation expense included in:	2012	2011
Cost of products sold	$ 41,760	$ 25,594
Research and development	29,804	31,480
Selling, general and administrative	51,370	41,915
	$ 122,934	$ 98,989

Share-based compensation for the three months ended September 30, 2012 and 2011, was approximately $670,000 and $286,000, respectively, an increase of approximately $384,000 or 134.3%. Increased employee stock option grants reflecting management's philosophy of aligning employee compensation with investor objectives was the primary reason for the increase in expense. The following table shows the allocation of share-based compensation for the three and nine months ended September 30, 2012 and 2011, to operating departments:

	Three Months Ended September 30,	
Share-based compensation included in:	2012	2011
Cost of products sold	$ 11,643	$ 17,549
Research and development	70,754	44,830
Selling, General and administrative	587,072	223,359
	$ 669,469	$ 285,738

We recorded approximately $450,000 and $334,000 in amortization expense related to intangible assets in the three months ending September 30, 2012 and 2011, respectively. The increase in amortization expense in the most recent quarter was a result of initiating amortization expense related to the acquired Research and Development costs associated with our micronized EpiFix® product. After completing the developmental stage, we began selling the micronized product in early 2012, and recorded amortization expense of $90,000 during the most recent quarter. We amortize our intangible assets over a period of three to fourteen years, which we believe represents the remaining useful lives of the patents underlying the licensing rights and intellectual property. We do not amortize goodwill but we test at least annually our goodwill for impairment and periodically evaluate other intangibles for impairment based on events or changes in circumstances as they occur.

Intangible Asset Impairment

We tested for impairment of the Intangible Assets related to the Licenses for SaluMedica LLC. Spine Repair and Polyvinyl Alcohol Cryogel as of September 30, 2012 using an undiscounted cash flow methodology. The impairment was the result of the HydroFix product line experiencing slower than projected growth in each of its markets.

Because our test indicated that the carrying value of the assets related to HydroFix exceeded its fair value, an impairment loss of approximately $1,799,000 was recognized and the intangible asset carrying amount was adjusted to its new basis. The Impairment was reported as a separate line item in the Condensed Consolidated Statement of Operations and included in the reported Loss From Operations.

All other intangible assets will be tested as of December 31, 2012 as per the date of our regular annual testing.

Fair value Adjustment of Earnout Liability

As of September 30, 2012, the Company evaluated the 2012 contingent liability associated with the acquisition of Surgical Biologics, LLC. Based upon operating results for the nine months ended September 30, 2012, and an estimate of fourth quarter tissue related revenue, the Company recorded a fair value adjustment of $1,320,000 and increased the 2012 earn-out liability to $5,545,280.

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Net Interest Expense

We recorded financing and net interest expense of approximately $585,000 during the three months ended September 30, 2012, compared with approximately $113,000 of financing and net interest expense during the three months ended September 30, 2011. The increase of approximately $472,000 is primarily due to interest related to our Convertible Senior Secured Promissory Notes, which were issued during the last quarter of 2011. The following table summarizes the interest charges for the three months ended September 30, 2012 and 2011:

	Three Months Ended September 30,							
	2012				2011			
	Amortization of Debt Discount	Accrued Interest	Interest Expense, net	Total	Amortization of Debt Discount	Accrued Interest	Interest Expense, net	Total
Convertible Line of Credit with Related Party	$181,224	$16,384	$—	$197,608	$11,084	$16,384	$—	$27,468
Convertible Debt related to acquisition	3,821	585	—	4,406	69,605	12,603	—	82,208
Convertible Senior Secured Promissory Notes	248,854	126,027	—	374,881	—	—	—	—
Deferred financing related to Senior Secured Promissory Notes	5,164	—	—	5,164	—	—	—	—
Other	—	—	2,586	2,586	—	—	3,690	3,690
	$439,063	$142,996	$2,586	$584,645	$80,689	$28,987	$3,690	$113,366

Results of Operations comparison for the Nine Months Ended September 30, 2012 to the Nine Months Ended September 30, 2011

Revenue

Total revenue increased approximately $11,419,000 to $16,544,000 for the nine months ended September 30, 2012, as compared to $5,125,000 for the nine months ended September 30, 2011. The increase in revenue as compared to the prior year is due primarily to increased sales of our amniotic membrane tissue products, EpiFix® and AmnioFix®. The Company experienced strong demand in the Spine, Wound Care, Ophthalmology, Sports Medicine and Orthopedics markets. Increased demand for the Spine, Orthopedic and Sports Medicine allografts was a result of growth in business with the Company's indirect sales force which consists of independent sales agents and distributors. This growth over the prior period was driven by the addition of certain distributors as well as the continued expansion and growth of our existing distribution network. The growth in Wound and to a lesser degree Sports Medicine was driven by the addition of a direct sales force in the period focusing on Government accounts. The sales executives hired have extensive experience in the wound care sector. On a year to date basis, the Spine, Orthopedics and Sports Medicine market shipments exceed shipments into the wound care market.

Tissue Processing Costs and Cost of Products Sold

Cost of products as a percentage of revenue improved to 21.2% from 47.6% as compared to prior year. The improvement was due primarily to the increase in revenue and product mix. During the second quarter the Company increased its clean room capacity from one line to three lines. In the third quarter that Company more than doubled the number of tissue processors to fully staff the new production lines. The expansion of production capacity was driven by increased demand for processed tissue. The new hires were given extensive training during the third quarter resulting in increasing daily processing rates over the course of the quarter. It is anticipated that production efficiencies will improve in subsequent quarters for these new hires. Personnel costs represent approximately $1,918,000 or 54.8% of total manufacturing, quality assurance and regulatory spending for the nine months ended September 30, 2012.

Beginning in 2012, the Company decided to allocate both depreciation expense and share-based compensation to each functional area. These expenses were reclassified in the prior year to maintain comparability. The amount of depreciation expense in cost of products sold was approximately $115,000 and $78,000, and the amount of share-based compensation in cost of products sold was $65,000 and $72,000 for the nine months ended September 30, 2012 and 2011, respectively.

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Research and Development Expenses

Our research and development expenses ("R&D expenses") decreased approximately $567,000 or 24.5% to $1,749,000 during the nine months ended September 30, 2012, compared to approximately $2,316,000 in the prior year. The decrease is primarily related to the closure of our Tampa research facility in mid-2011, along with decreased spending on animal studies for our CollaFix™ and HydroFix® products. Approximately $542,000, or 31.0%, of R&D expenses for the nine months ended September 30, 2012 were attributable to personnel costs, compared to approximately $620,000 or 26.8% for the nine months ended September 30, 2011. Development and testing costs were approximately $94,000 and $497,000 for the nine months ended September 30, 2012 and 2011, respectively. This decrease of approximately $403,000 is a result of lower costs in animal studies related to our CollaFix™ and HydroFix® products. Additionally, as described above in Cost of Products Sold, beginning in 2012, we decided to allocate both depreciation expense and share-based compensation expense to other functional areas, and have reclassified prior year amounts to maintain comparability. During the nine months ended September 30, 2012 and 2011, we recorded approximately $90,000 and $91,000 for depreciation expense, respectively, and approximately $218,000 and $229,000 for share-based compensation expense, respectively, to research and development.

Our research and development expenses consist primarily of internal personnel costs, fees paid to external consultants, and supplies and instruments used in our laboratories. During the current year, the Company filed 3 international patent applications for the amniotic tissue technology and 1 international patent application for the collagen technology. The Company also filed 11 US patent applications, including 6 non-provisional applications for the amnion technology, 4 provisional applications for the amnion technology and 1 non-provisional application for the collagen technology. Additionally, during the current year the Company was granted 3 US patents for the hydrogel technology, 1 US patent for the collagen technology, and 2 European patents for the collagen technology.

Selling, General and Administrative Expenses

Selling, General and Administrative expenses for the nine months ended September 30, 2012, increased approximately $4,868,000 or 63.3% to $12,561,000 compared to $7,693,000 for the nine months ended September 30, 2011. Selling expense increases were driven by costs associated with building our direct sales organization for government accounts and to a lesser degree our commercial direct sales organization as well as increased commissions due to higher sales volume. Increased spending on support costs related to medical reimbursement including our 24-hour reimbursement hotline, our information technology infrastructure to help manage the growth of the business, increased share based compensation expense and a provision for anticipated costs associated with its management incentive program. General and administrative expenses consist of personnel costs, professional fees, sales commissions, sales training costs, industry trade show fees and expenses, product promotions and product literature costs, facilities costs and other sales, marketing and administrative costs, depreciation and amortization, and share-based compensation. Personnel costs represent approximately $5,459,000 or 43.5% of total Selling, General and Administrative expenses in the nine months ended September 30, 2012, compared to approximately $2,335,000 or 30.4% in the nine months ended September 30, 2011.

Historically, the Company has reported depreciation and share-based compensation expense as part of selling, general and administrative expense. The Company decided to report these expenses in each functional area in order to more accurately present all of the costs attributable to each functional area. During the nine months ended September 30, 2012 and 2011, we recorded a total of approximately $354,000 and $331,000 in depreciation expense allocated to each functional area per the table below. The overall $23,000 increase in depreciation was attributable to the purchase of additional production and office equipment and leasehold build-out to support our revenue growth and additional staff. We depreciate our assets on a straight-line basis, principally over five to seven years.

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The following table shows the allocation of depreciation for the nine months ended September 30, 2012 and 2011, to operating departments:

	Nine Months Ended September 30,			
Depreciation expense included in:		2012		2011
Cost of products sold	$	114,729	$	78,350
Research and development		90,491		90,694
Selling, general and administrative		149,206		161,808
	$	354,426	$	330,852

Share-based compensation for the nine months ended September 30, 2012 and 2011, was approximately $1,756,000 and $1,317,000, respectively, an increase of approximately $439,000 or 33.3%. Increased employee stock option grants reflecting management's philosophy of aligning employee compensation with investor objectives was the primary reason for the increase in expense. The following table shows the allocation of share-based compensation for the nine months ended September 30, 2012 and 2011, to operating departments:

	Nine Months Ended September 30,			
Share-based compensation included in:		2012		2011
Cost of products sold	$	65,132	$	71,570
Research and development		217,885		229,401
Selling, General and administrative		1,472,652		1,016,443
	$	1,755,669	$	1,317,414

We recorded approximately $1,118,000 and $1,002,000 in amortization expense related to intangible assets in the nine months ending September 30, 2012 and 2011, respectively. The increase of approximately $116,000 is the result of additional amortization recognized in the current year related to our development costs of our micronized EpiFix® product that we began selling in early 2012. We amortize our intangible assets over a period of three to fourteen years, which we believe represents the remaining useful lives of the patents underlying the licensing rights and intellectual property. We do not amortize goodwill but we test at least annually our goodwill for impairment and periodically evaluate other intangibles for impairment based on events or changes in circumstances as they occur.

Intangible Asset Impairment

We tested for impairment of the Intangible Assets related to the Licenses for SaluMedica LLC. Spine Repair and Polyvinyl Alcohol Cryogel as of September 30, 2012 using an undiscounted cash flow methodology. The impairment was the result of the HydroFix product line experiencing slower than projected growth in each of its markets.

Because our test indicated that the carrying value of the assets related to HydroFix exceeded its fair value, an impairment loss of approximately $1,799,000 was recognized and the intangible asset carrying amount was adjusted to its new basis. The Impairment was reported as a separate line item in the Statement of Operations and included in the reported Loss From Operations.

All other Intangible assets will be tested as of December 31, 2012 as per the date of our regular annual testing.

Fair value Adjustment of Earnout Liability

As of September 30, 2012, the Company evaluated the 2012 contingent liability associated with the acquisition of Surgical Biologics, LLC. Based upon operating results for the nine months ended September 30, 2012, and an estimate of fourth quarter tissue related revenue, the Company recorded a fair value adjustment of $1,320,000 and increased the 2012 earn-out liability to $5,545,280.

Net Interest Expense

We recorded financing and net interest expense of approximately $1,673,000 during the nine months ended September 30, 2012, compared with approximately $292,000 of financing and net interest expense during the nine months ended September 30, 2011. The increase of approximately $1,382,000 is primarily due to interest related to our Convertible Senior Secured Promissory Notes, which were issued during the last quarter of 2011. The following table summarizes the interest charges for each of the nine months ended September 30, 2012 and 2012:

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	Nine Months Ended September 30,							
	2012				2011			
	Amortization of Debt Discount	Accrued Interest	Interest Expense, net	Total	Amortization of Debt Discount	Accrued Interest	Interest Expense, net	Total
Convertible Line of Credit with Related Party	$343,527	$48,794	$—	$392,321	$22,002	$26,342	$—	$48,344
Convertible Debt related to acquisition	170,509	21,078	—	191,587	192,204	36,712	—	228,916
Convertible Senior Secured Promissory Notes	693,552	373,973	—	1,067,525	—	—	—	—
Deferred financing related to Senior Secured Promissory Notes	14,701	—	—	14,701	—	—	—	—
Other	—	—	7,351	7,351	—	—	14,391	14,391
	$1,222,289	$443,845	$7,351	$1,673,485	$214,206	$63,054	$14,391	$291,651

Liquidity and Capital Resources

Revenue continues to increase quarter over quarter while management maintains tight controls over spending. As of September 30, 2012, the Company had approximately $7,621,000 of cash and cash equivalents. The Company reported total current assets of approximately $16,140,000 at September 30, 2012 and total current liabilities payable in cash of approximately $5,003,000 at September 30, 2012, after adjusting for the short term earn-out liability payable in MiMedx common stock in the second quarter of 2013. Additionally, the current liabilities include a convertible line of credit of approximately $1,174,000 which is due to be paid in December 2012 but can be extended for an additional 12 months with a one-time payment of 5% of the principal balance due, or $65,000, in December 2012. Therefore the current liabilities after adjustment for the earn-out and the convertible line of credit are approximately $3,894,000 which results in a current ratio of 4.14. The Company believes that its anticipated cash from operating and financing activities and existing cash and cash equivalents will enable the Company to meet its operational liquidity needs, fund its planned investing activities and pay its debt when due for the next twelve months.

Contractual Obligations

Contractual obligations associated with our ongoing business activities are expected to result in cash payments in future periods. The table below summarizes the amounts and estimated timing of these future cash payments as of September 30, 2012:

	Payments due by period				
Contractual Obligations	TOTAL	Less than 1 year	1-3 years	3-5 years	More than 5 years
Convertible senior secured promissory notes	$ 5,000,000	—	$ 5,000,000	—	—
Convertible debt, line of credit with related party	1,300,000	1,300,000	—	—	—
Employment agreements	55,421	55,421	—	—	—

Operating lease obligations		607,169		374,025		233,144	—	—
Consulting agreements		187,132		90,853		96,279	—	—
Royalty payments		95,000		95,000		—	—	—
	$	7,244,722	$	1,915,299	$	5,329,423	—	—

Discussion of cash flows

Net cash used in operations during the nine months ended September 30, 2012, decreased approximately $2,548,000 to $2,461,000 compared to $5,009,000 used in operating activities for the nine month period ended September 30, 2011, primarily attributable to our increased sales activity, improved gross margins and reduced spending in research and development.

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Net cash used in investing activities during the nine months ended September 30, 2012, decreased approximately $482,000 to $402,000 compared to $884,000 used in investing activities for the nine month period ended September 30, 2011. The decrease was due to the acquisition of Surgical Biologics in 2011 and no acquisitions in 2012.

Net cash flows from financing activities during the nine months ended September 30, 2012 increased approximately $1,182,000 to $6,372,000 compared to $5,190,000 during the three months ended September 30, 2011. Cash flows from financing activities during the current year include approximately $5,925,000 received from the exercise of warrants, $885,000 received from the exercise of stock options, $427,000 in payments related to the acquisition of Surgical Biologics, and $11,000 in payments on an equipment lease.

Due to the material amount of non-cash related items included in the Company results of operations, the Company has developed an Adjusted EBITDA metric which provides management with a clearer view of operational use of cash (see the table below). The Adjusted EBITDA for the third quarter of 2012 was approximately $726,000 which is an improvement of approximately $1,660,000 as compared to the prior year quarter. This improvement was the result of increased revenue, improved gross margins and reduced spending in research and development.

We use various numerical measures in investor conference calls, investor meetings and other forums which are or may be considered "Non-GAAP financial measures" under Regulation G. We have provided below for your reference, supplemental financial disclosure for these measures, including the most directly comparable GAAP measure and an associated reconciliation. The following table provides reconciliation of reported Net Loss on a GAAP basis to Adjusted EBITDA defined as Earnings before Interest, Taxes, Depreciation, Amortization and Share-Based Compensation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Loss (Per GAAP)	$ (4,219,370)	$ (1,765,723)	$ (6,057,092)	$ (7,616,791)
Add back:				
Income Taxes	-	-	-	-
Financing expense associated with beneficial conversion of note payable issued in conjunction with acquisition	3,821	69,605	170,509	192,204
Financing expense associated with beneficial conversion of Line of Credit with Related Party	181,224	11,084	343,527	22,002
Financing expense associated with beneficial conversion of Senior Secured Promissory Note	248,854	-	693,552	-
Other interest expense, net	150,746	32,677	465,897	77,445
Depreciation Expense	122,934	98,989	354,425	330,851
Amortization Expense	449,691	333,977	1,117,646	1,001,931
Employee Share Based Compensation	554,136	222,792	1,432,627	1,028,801
Other Share Based Compensation	115,333	62,946	323,042	288,614
Impairment of Intangible Assets	1,798,495	-	1,798,495	-

Fair Value Adjustment of Earn-out Liability	1,320,000	-	1,320,000	-
Earnings/(Loss) Before Interest, Taxes, Depreciation, Amortization, Share-Based Compensation, Impairments and FV Adjustments	$ 725,864	$ (933,653)	$ 1,962,628	$ (4,674,943)

Critical Accounting Policies

In preparing our financial statements we follow accounting principles generally accepted in the United States, which require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. A summary of our significant accounting policies that require the use of estimates and judgments in preparing the financial statements was provided in our Annual Report on Form 10-K for the year ended December 31, 2011. During the first nine months of fiscal 2012, there were no material changes to the accounting policies and assumptions previously disclosed.

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Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Item 1 Financial Statements – Note 2.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes from the disclosures presented in the Company's Form 10-K for the year ended December 31, 2011. For an in-depth discussion of the Company's market risks, see Item 7A - "Quantitative and Qualitative Disclosures About Market Risk" of the Company's Form 10-K for the year ended December 31, 2011.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer. Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our controls and procedures were effective as of the end of the period covered by this report.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding disclosures.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the three months ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

We have confidence in our internal controls and procedures. Nevertheless, our management, including our Chief Executive Officer and Principal Financial Officer, does not expect that our disclosure procedures and controls or our internal controls will prevent all errors or intentional fraud. An internal control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all our control issues and instances of fraud, if any, have been detected.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

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Item 1A. Risk Factors

As of the date of this report, there have been no material changes to the risk factors included in Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2011, except for the following:

Market Concentrations and Credit Risk

Distribution – The Company's principal concentration of risk is related to its limited distribution channels. Two customers accounted for approximately 78% of revenue for the three months ended September 30, 2012, including one customer who represented 62%, and a second customer who represented 16% of total revenue.

The Company's accounts receivable are derived from customers primarily located in the United States of America. One customer accounted for 59% of the total accounts receivable as of September 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the nine months ended September 30, 2012, the Company issued 2,632,576 shares of Common Stock valued at $3,185,223 for payment of the 2011 Earn-out liability related to its acquisition of Surgical Biologics, issued 893,267 shares of Common Stock valued at $893,267 for payment of the Convertible Promissory Notes related to its acquisition of Surgical Biologics, issued 7,857,266 shares of Common Stock valued at $5,925,539 for exercise of warrants, issued 167,086 shares of Common Stock valued at $184,653 for accrued Director's fees, and issued 216,085 shares of Common Stock for cashless exercises of warrants.

The Company relied on Section 4(2) of the Securities Act of 1933 (the "Securities Act") and Rule 506 of Regulation D under the Securities Act, as amended, to issue the securities described above because they were offered to accredited investors and a limited number of unaccredited investors who purchased for investment in transactions that did not involve a general solicitation.

Form 10-K for the twelve months ended December 31, 2011 filed March 30, 2012, provides information related to unregistered sales of equity securities during the twelve months ended December 31, 2011.

We did not repurchase any shares during the three months or nine months ended September 30, 2012, and currently have no share repurchase plans or programs.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Reference	Description
31.1	#	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	#	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	#	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	#	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\# Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 13, 2012

By: /s/ Michael J. Senken
Michael J. Senken
Chief Financial Officer