

**Operator:** Greetings, and welcome to the AxoGen, Inc. Third Quarter 2014 Results Conference Call.

At this time all participants are in a listen-only mode.

A brief question-and-answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press star then zero on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Doug Sherk.

Please go ahead.

**Mr. Doug Sherk:** Uh, thank you and good afternoon, everyone. Thank you for joining us today for the AxoGen conference call to discuss the financial results for the third quarter ended September 30th, 2014, as well as recent corporate developments, including the financing provided by Oberland Capital.

Following today's market close, AxoGen issued two press releases announcing its third quarter financial results and the completion of a financing agreement with Oberland Capital. Both releases are posted on the Company's website at [www.axogeninc.com](http://www.axogeninc.com).

In ad--uh, excuse me. In addition, the Company's 10-Q for 2014 third quarter and 8-K regarding the transaction with Oberland Capital were filed with the SEC earlier this afternoon.

Today's call is being broadcast live by a webcast, which is available on the AxoGen website. Within an hour following the end of the live call, a replay will be available on the Company's website at [www.axogeninc.com](http://www.axogeninc.com) under "Investors."

Before we get started, I'd like to remind you that during the course of this conference call the Company will make projections and forward-looking statements regarding future events. We encourage you to review the Company's past and future filings with the SEC, including without limitation on Company's form--the Company's forms 10-K and 10-Q and today's 8-K, which identify the specific factors that may cause actual results or events to differ materially from those described in these forward-looking statements.

These factors may include without limitation statements regarding product development, product potential, regulatory environment, sales and marketing strategies, capital resources or operating performance.

And with that, I'd like to turn the call over to Karen Zaderej, President and Chief Executive Officer of AxoGen.

**Ms. Karen Zaderej:** Thank you, Doug, and good afternoon, everyone.

Welcome to our third quarter 2014 conference call. Joining me on the call today are Bob Johnston, our Chief Financial Officer and Greg Freitag, our General Counsel and Senior VP of Business Development.

Today, we reported on two significant milestones for AxoGen. And in doing so, we've provided a clear path to increase growth as well as shareholder value. The first milestone AxoGen achieved was another record quarter of revenue. The second milestone is we entered into a new financing agreement with Three Peaks Capital, an indirect wholly-owned subsidiary of Oberland Capital Healthcare Master Fund LP.

The Oberland agreement allows us to retire our existing royalty agreement with PDL BioPharma and substantially lowers our future annual debt payments.

Bob will walk through the details of the transaction in a few minutes, but I'd like to take a moment to express my thanks to the--to Oberland Capital, PDL BioPharma and the AxoGen team for working together to make this transaction happen.

Well, let's start with an overview of the quarter and the execution of our strategic plan. Our record quarterly revenue of 4.67 million represents a 58 percent increase over the year ago third quarter. We ended the quarter strong and this momentum continued throughout the month of October. In addition to the record revenue, our gross margins expanded to over 80 percent. We delivered improved performance across our team metrics.

The contributing factors that drove our revenue growth include; the number of accounts using two or more of our brands increased by 60 percent over the same quarter in 2013, revenue provided by accounts purchasing two or three of our products has increased by nearly 80 percent from last year's third quarter (this was a key objective for our team this year) and our focus has delivered an impressive growth rate, and finally we've also focused on driving penetration from existing accounts. The revenue contribution from these existing customers in the third quarter of 2014 was nearly 88 percent of our sales.

Peripheral nerve repair is a large and untapped market opportunity that is estimated to be 1.6 billion. I believe we're uniquely positioned to provide the best solutions to this market. Our comprehensive product portfolio creates a competitive barrier to entry and it addresses a rising issue among surgeons, how to provide treatment options for patients in a safe and cost effective manner without the potential complications of a second surgery.

AxoGen's portfolio of nerve repair products provides surgeons with the off-the-shelf option to restore quality of life to patients suffering from peripheral nerve injury. Our products eliminate the need for a second surgery and offer new options to treat the more than 900,000 nerve injuries that will be surgically repaired this year in the United States. This is one reason why our value proposition is compelling and explains why surgeons are beginning to migrate to our portfolio of regenerative nerve repair products.

I'd like to take a moment and review the growth strategy that our team is successfully executing. Our portfolio of off-the-shelf products addresses all of a surgeon's nerve repair and protection needs. The first of these products is Avance Nerve Graft. It is donated human nerve tissue, processed through our proprietary cleansing and de-sterilization [sp] method and intended for the surgical repair of peripheral nerve gaps. Next, is AxoGuard Connector, the only extracellular matrix coaptation aide for tensionless repair of severed peripheral nerves. AxoGuard Nerve Protector is the only extracellular matrix surgical implant used to protect injured nerves and to reinforce the nerve reconstruction while preventing soft tissue attachments.

So, now let me review how we're addressing the market. It's a pioneering marketing and sales approach. We call it our Four Pillars of Growth. First, we're building market awareness. To make surgeons aware of the new treatment options, we are interacting with them at hospitals, clinical conferences, promotional events and the surgeon education courses we sponsor. At two recent industry conferences, the American Society for Surgery of the Hand and the American Association of Oral and Maxillofacial Surgeons, our efforts manifested into increased attendance at our events. We exceeded our goals and were pleased with the increased surgeon awareness.

Patient stories are the real validation of our product's impact. Anna [sp], a 20-year-old college student athlete, was one of the several million people who've had their wisdom teeth removed each year. However, on the day following the procedure, Anna noticed that her tongue was numb and she had no feeling. Anna's parents reached out to Atlanta Oral Maxillofacial Surgeon, Dr. Shahrokh Bagheri, who evaluated Anna and recognized that her symptoms were consistent with a severed lingual nerve, the nerve that provides sensation for the tongue.

Knowing that the best outcome for a severed oral nerve injuries happen with timely treatment, Dr. Bagheri recommend surgery. Dr. Bagheri aligned Anna's, uh, severed nerve ends and wrapped the repair site with an AxoGuard Nerve Protector to provide protection from soft tissue attachments during the healing process. Today, Anna is back at school and her sensory recovery is well underway. We were delighted to know that our products played a role in her recovery.

Our second pillar of growth is focused on surgeon education and the development of surgeon advocates. Our professional educational program supplement our local educational efforts and our peer-to-peer education opportunities where we review the latest science and best practices in surgical nerve repair. We've held five of these in the past 12 months. These are highly successful events from both the surgeon and the company perspective.

We've observed a greater than 60 percent increase in revenue from the surgeons who attend the events. And anecdotally we hear surgeons telling us the many ways they're changing their treatment practice upon learning from the expert faculty.

Let me share an example of the type of immediate impact that we see following one of our best practices courses. An upper extremity surgeon from Georgia who attended the course that we held three weeks ago, uh, was new to AxoGen products. Following the course, he's already used our AxoGuard Nerve Protector in a carpal tunnel revision procedure and has scheduled three cases in which he plans to use our Avance Nerve Graft.

The third pillar we focus on is growing our body of clinical data. We continue to make progress building data to assist surgeons in the decision making process. We've initiated and sponsored the largest multi-center clinical study in peripheral nerve repair called the Ranger study. At the end of the third quarter, the Ranger study included 558 nerve repairs. And results from this study have already been published in two peer review journals and presented at more than 30 clinical conferences in the U.S. and in Europe. What continues to impress the surgical community is that the outcomes for Avance Nerve Graft remain consistently positive even as the population of repairs increases.

The final and fourth pillar is solid sales execution. We've continued to grow our sales force strategically and focus on key markets. At the end of the third quarter our sales force consisted of 23 direct reps. They have a solid understanding of the science of nerve repair and the ability to deliver a clear and compelling message about all three of our products.

As I mentioned previously, throughout this year our focus has been on breadth, depth and quality of our accounts. Our primary goal is to penetrate deeper into existing

accounts since those that order all three of our products generate five to seven times more revenue than an account ordering just one product.

Slightly more than half of our reps have been with us for at least 12 months and their knowledge about our product portfolio is contributing to our growth. At the same time nearly half of our direct reps have been with us for less than a year. Um, we have several emerging stars in this new group, and we expect their productivity to increase in the coming quarters.

Additionally, at the end of the third quarter we had 24 independent agencies in the field representing our products. Combined with our direct reps, we have a sales footprint covering most the United States.

We see substantial upside longer term in our current business of upper extremity as well as expansion opportunities in other areas of nerve repair. I'll come back to this after Bob provides you with some additional details on our third quarter results and the transaction with Oberland Capital.

Bob?

**Mr. Bob Johnston:** Thanks, Karen, and good afternoon, everyone.

I'll focus my comments on financial highlights during our third quarter. But, first let me spend a few moments on the financing that retires our previous royalty agreement with PDL.

Oberland Capital is a private investment firm focused exclusively on investing in the global healthcare industry. Its team possesses significant financial and operational expertise built throughout long tenures in the healthcare industry. Three Peaks Capital, SARL an indirect wholly-owned subsidiary of Oberland Capital Healthcare Master Fund,

LP, collectively Oberland Capital, has provided us with 28.55 million in cash. We used this cash along with 1.75 million of our capital to retire the existing PDL royalty agreement. The company also issued 1.75 million of common stock at market without warrants to PDL for cash. PDL investing approximately 1.75 million in AxoGen further validates the company and its progress.

Though Three Peaks, Oberland Capital has extended us a six year 25 million term loan with interest only payments due quarterly with a final principle payment due at the end of the six year term. The interest rate under the new agreement is 9 percent plus the greater of LIBOR or 1 percent, which resulted in a rate of 10 percent at closing. Under certain conditions, the company has the option to draw an additional seven million during the period of April 1st, 2016 and June 29th, 2016.

We also entered into a 10-year revenue interest agreement with Oberland Capital. The royalty payments are based on a royalty rate of 3.75 percent of AxoGen's revenues, up to a maximum of 30 million in revenues in any 12 month period. The company has the option to prepay the term loan in the revenue interest agreement at any time in whole or in part.

The overall projected yearly debt payments of approximately 3.6 million for the term loan and the revenue interest agreement represent a significant reduction in debt payments owed yearly. As compared with our previous agreement, we expect to save 3.2 million in total debt payments in 2015, 5.6 million in 2016 and 5.4 million in 2017 and for each year beyond. Again, these numbers reflect the annual reduced debt payments we have achieved under the new agreement.

In addition to the term loan and the revenue interest agreement, Oberland Capital also purchased 3.55 million of common stock of AxoGen at market and without any warrants, validating their belief in AxoGen and its prospects. We believe our ability to attract well regarded partners, first with PDL and now Oberland Capital, demonstrates the potential of the peripheral nerve repair market and AxoGen's leadership position in this market.

Now, let me discuss our quarterly results.

Our revenues increased 58 percent to 4.7 million for the third quarter compared to the same time period last year. This growth is primarily due to increased product usage by existing accounts, which as Karen noticed, has been a major focus of our strategy for 2014. We also had approximately 57,000 in grant revenues.

Gross profit for the quarter increased to 3.8 million or 64 percent compared to 2.3 million for the prior year quarter. Gross margin expanded to 80.8 percent compared to 78 percent a year ago third quarter, reflecting price increases in March 2014, manufacturing efficiencies and a positive product mix.

Now, let me turn to expenses.

Sales and marketing expenses increased to approximately 17.9 percent for the quarter, primarily due to increased investments in sales and marketing efforts, including surgeon educational events and tradeshow. As Karen referenced earlier, we are already seeing a positive--strong positive impact in our results from the surgeon events.

Sales and marketing expenses as a percentage of sales declined to 69.6 percent from 93.2 percent in last year's third quarter as a result of our strong revenue increase.

General and administrative expenses increased 33.5 percent over the 2013 third quarter. The year-over-year increase is due to several factors, including increased compensation, which included non-cash stock option compensation and increased insurance expenses. As a percentage of sales, G&A expenses were 35.2 percent, down from the 41.7 percent in the third quarter last year. We expect G&A expenses to increase minimally over time and to further decline as a percentage of sales as sales increase.

R&D spending increased 14.6 percent to a total of 681,000. The increases are related to clinical activities, including expenses this year related to the biological license application, or BLA, for the Avance Nerve Graft as well as increased investments in our product development pipeline. As a percentage of sales R&D expenses declined from 20 to 14.6 percent for the same period last year.

Interest expense was up 13.6 percent to approximately 1.4 million due to the increased interest related to the PDL royalty agreement, from higher revenue and interest accrued related to the royalty agreement.

For the nine months ended September 30th our revenues increased 51 percent to slightly over 12 million compared to approximately 7.9 million for the nine months ended September 30th, 2013. So, we have already surpassed our full year 2013 in just the first nine months, clearly demonstrating the progress in our strategies and continued business momentum.

Gross profit increased 56 percent to 9.5 million compared to 6.1 million for the prior nine month period. Gross margin improved to 79.3 percent for the nine months ended September 30th, 2014 compared to 76.9 percent for the same period in 2013.

Total cost and expenses for the first nine months increased to 16.6 compared to 12.9 in the year ago period, primarily due to funding our sales and marketing activities in addition to bringing in personnel to meet our growth prospects.

During the quarter, we continue to actively manage our cash as the monthly burn rate declined from 1.1 million per month in the first quarter to 900,000 per month in the second quarter to 800,000 per month in the third quarter. We ended the quarter with 11.8 million in cash. We have sufficient cash resources to meet our operating needs for at least the next 12 months.

With that, I'll now turn it back to Karen for her summary comments.

**Ms. Karen Zaderej:** Thanks, Bob.

With the success and continuing momentum of our current focus and upward extremity nerve repair, we've been evaluating expansion efforts into other nerve markets such as prostate surgery to address impotence and incontinence, opportunities in oral and maxillofacial surgery, lower extremity nerve injuries and breast reconstruction.

The oral and maxillofacial surgery market is estimated to be a \$129 million opportunity. Nerve injuries in maxillofacial surgery are an unmet clinical need that we are able to address with our current product portfolio.

As we discussed on our last earnings call, following a successful completion of a pilot launch into the OMS market, we rolled the launch out to our entire field sales team in July of this year. In fact, this past weekend we hosted a two day professional educational event for OMS surgeons in Dallas, hosted by Dr. John Zuniga from the University of Texas Southwest.

Surgeons from around the country flew in to attend this event, which included didactic and hands-on surgical skills training. We're less than one week following the end of the course, but I can already share with you that the feedback from the course was extremely positive and that we scheduled cases with three surgeons who attended the course.

With respect to prostate cancer surgery enrollment and follow-up in the pilot clinical study is completed. We anticipate data analysis from this preliminary study in the first half of 2015. Additionally, we are looking at the potential of expanding our existing products into other surgical areas such as nerve entrapment in the lower extremities and the reconstructive breast market.

In summary, we had a strong third quarter, and we had continued momentum throughout the month of October. Our year-to-date results reflect the optimism earlier in the year when we introduced our revenue objectives and we are now more confident than ever that we'll exceed our original 2014 revenue target of 16 million while maintaining gross margins of at least 75 percent.

Before we take questions, we'd like to let investors know that we'll be at the Brean Capital's 2014 Life Science Conference on Monday, November 24th in New York City, and we're also available to meet on Tuesday, November 25th in New York City.

Finally, we will be in San Francisco during the JPMorgan conference and EVC is arranging our schedule. If you'd like to meet with us during any of these events, please just let Doug know.

With that, thank you. And, uh, Chad we're ready to take some questions.

**Operator:** Certainly. Thank you.

We will now conduct a question-and-answer session.

If you would like to ask a question, please press star then one on your telephone keypad.

A confirmation tone will indicate your line is in the question queue.

You may press star then two if you would like to remove your question from the queue.

For participants using speakerphones it may be necessary to pick up your handset before pressing the keys.

One moment while we poll for questions, please.

Our first question comes from Jeffery Cohen with Ladenburg Thalmann.

Please go ahead.

**Mr. Jeffery Cohen:** Oh, hello, Karen, Bob, Greg and Doug. Can you hear me okay?

**Ms. Karen Zaderej:** Yes, Jeff--.

**Mr. Bob Johnston:** --Yes, we can, Jeff.

**Mr. Jeffery Cohen:** Good afternoon. Sorry for any background noise.

So, um, could you talk a little bit or give us a better sense of revenue compensation for the quarter, um, specifically for the percent from Avance?

**Mr. Bob Johnston:** Yeah. Approximately, Jeff, we--our revenues are 55 percent Avance on a revenue basis and 45 percent AxoGuard.

**Mr. Jeffery Cohen:** Okay. And, um, it looks like--is it safe to say from a breakeven perspective that it appears as if--I mean your costs appear to be, um, you know, remaining under pretty good control for the quarter. So, is it safe to say that

breakeven could be approximately seven to \$7.5 million on a quarterly basis? Is that a good guesstimate from my perspective?

**Mr. Bob Johnston:** Well, you know, at this point, Jeff, as you know, um, we haven't provided guidance beyond 2014, and we're going to continue to evaluate our needs as we grow the business.

**Mr. Jeffery Cohen:** Okay. And as far as the--uh, the PDL repayment, I'm just trying to get my hands around the--uh, the money exchange and the timeframe.

So, the money borrowed from October 2012 was \$20.8 million. So, they were paid back 28.55 this quarter, plus obviously the, uh, interest payments over the last eight quarters, plus approximately 643,000 shares, which represented an additional \$1.75?

**Mr. Bob Johnston:** Yeah. The total that--uh, that we paid to PDL was 30.3 million at--.

**Mr. Jeffery Cohen:** --30.3--.

**Mr. Bob Johnston:** --30.3--.

**Mr. Jeffery Cohen:** --That--.

**Mr. Bob Johnston:** --Jeff. That consists--.

**Mr. Jeffery Cohen:** --Okay--.

**Mr. Bob Johnston:** --Of the 28.55 that we received from Oberland, and then 1.75 million came from our capital, but then we turned around and sold 1.75 million in shares to PDL.

**Mr. Jeffery Cohen:** Okay. And there was about another, uh, six to eight million dollars that was paid in interest over the last eight quarters. So, the total IRR was 31 percent. Is that accurate?

**Mr. Bob Johnston:** Uh, you know, we don't go into those details on what the IRR was, uh, for PDL. Um, I can tell you that, you know, on our books at closing our notes payable to PDL were 28.7 million. And then, with, you know, additional negotiations, the number was 30.3 off their original amount was, you know, 20.8 million that they extended us in October 2012.

**Mr. Jeffery Cohen:** Okay, got it. And then, lastly, uh, Karen, I wondered if you could discuss a little bit about the--um, the preparation or the beginning for the--uh, the BLA trial for Avance. Could you kind of outline maybe some of the parameters and anticipated timeframe and cost that we might see?

**Ms. Karen Zaderej:** So, the--um, the BLA trial is--uh, we're gearing up for that. As I mentioned before, the FPA was approved quite some time ago with the FDA. So, the protocol is, uh, set and approved by the FDA.

Um, again, since we're doing this in parallel--we're actually doing multiple things in parallel, um, since this is a product that's already on the market and we're transitioning over to the license--uh, biological license. And so, we are in the final phases of completing the IND, uh, which typically you would do first before the protocol, but we did them in parallel.

Um, we are looking to begin enrollment, um, of that trial starting right after the first of the year, sometime in first quarter, um, but, of course, that's subject to discussions with the FDA as we finalize our--uh, our readiness for that.

**Mr. Jeffery Cohen:** Okay. And duration and cost anticipated?

**Ms. Karen Zaderej:** Yeah. So, the--um, the study, uh, costs are about two million dollars. Um, it's--uh, it's actually a very economical regulated biologic trial, um,

for a lot of reasons, um, but--uh, but it'll take us about, um, three years to complete that trial once we begin enrollment. It's a two year enrollment period with a one year follow-up. And then, of course after that, there'll be a data analysis and the actual BLA submission. So, uh, there's another year on top of that in terms of data analysis by the time we're done.

**Mr. Jeffery Cohen:** Okay, got it. That's it for me. Thanks a lot for taking the questions.

**Ms. Karen Zaderej:** Thank you, Jeff.

**Mr. Bob Johnston:** Thank you, Jeff.

**Operator:** Once again as a reminder, if you would like to ask a question, please press star then one.

Our next question comes from John Gillings with JMP Securities.

**Mr. John Gillings:** Hey, guys, can you hear me okay?

**Ms. Karen Zaderej:** Yes, John--.

**Mr. Bob Johnston:** --Yes, John.

**Mr. John Gillings:** Okay, great. Well, congratulations on the financing.

**Ms. Karen Zaderej:** Thank you--.

**Mr. Bob Johnston:** --Thank you.

**Mr. John Gillings:** Um, first just wanted to ask a quick follow-up there, uh, to make sure I've got my head around it.

So, um, your annual financing costs for that will be 3.6 million. And then, uh, in the second quarter of '16 when you can take down the additional seven, um, will that be under the same terms, same interest rates?

**Mr. Bob Johnston:** Yes, John.

**Mr. John Gillings:** Okay. All right, thanks.

And then, uh, just want to take a quick look at the gross margin. Uh, 80.8 percent was a little higher than we were modeling. Um, is that sustainable? Was there anything sort of one time in the quarter?

**Mr. Bob Johnston:** No. You know, it definitely, John, is dependent on what our product mix is for a particular quarter. And so, we did experience, um, a favorable product mix for the third quarter. Um, we also had some manufacturing efficiencies, and we were able to continue to take advantage of the price increases we had in March.

Uh, we are comfortable, John, that it will continue to exceed 75 percent, but we want to indicate that it all--a lot of it depends on the product mix as we, you know, go from quarter-to-quarter.

**Mr. John Gillings:** Okay, that's helpful.

And then, uh, in terms of--uh, of reps, you guys had talked about adding four to six new reps in the back half, and it looks like you added one during the quarter. Um, given the momentum you've seen in sales and the refinancing, uh, you know, maybe freeing up some of the cash flow, um, any update you can give us there on, uh, what hiring might look like in the next quarter or two?

**Ms. Karen Zaderej:** Yeah. We--uh, we are going to be adding some additional reps. Um, our--uh, we have shifted the timing somewhat, because we really felt that we wanted to focus on--uh, attention on the reps that we had existing in the field and continue to help their development and growth.

Um, having said that, we will be adding additional reps, and going forward, I would still say on an annual basis you should look at, um, we would be somewhere in the, uh, six to 10 range that we'd be adding reps.

**Mr. John Gillings:** Okay, thanks.

And then, um, it looks like, uh, the majority of the growth in the quarter came from an increased penetration in existing accounts, but, um, we were at the meeting in Boston and it seemed like the attendance was pretty solid.

Um, is this something where it just takes time for the new guys to sort of ramp up and get going or was there something in the quarter like, uh, you know, a bunch of hospitals getting through the committee process or something that? Uh, just any color you can give us there would be helpful.

**Ms. Karen Zaderej:** Yeah, this is not based on, uh, really new accounts as a big driver. Again, it really--the growth has been--um, and our focus has been on building in penetration in accounts that we're already in. Now, we do continue to add new accounts, uh, especially in new territories, but the lowest hanging fruit and the biggest opportunity for us is to increase our penetration into the accounts that we're already in.

And what we have seen in this area is that surgeons--that we're really starting and to have people rethink what they've done in nerve repair, and it is, uh, something completely different than what they were trained on oftentimes. And so, this is an evolutionary process where surgeons want to hear from experts, things like your Professional Education Events. They want to try some implants in their hands and see their own results, and they want to evolve as they continue to adopt the products. And that's the growth that we've seen.

Um, I think things like the conferences that we had earlier this year were a very good help for us as surgeons continue to get, um, excitement and growth, um, from, again, hearing the--uh, the opportunities and the cases that they've heard from case experts. So, that was a big boost as well.

**Mr. John Gillings:** Okay. And then, just one last one, I apologize if I missed it earlier.

Um, would you be willing to tell us what pricing contributed to growth in the quarter?

**Mr. Bob Johnston:** Um, you know, what we've said before in our press earnings call is it was, you know, mid to high single digits was the contribution.

**Ms. Karen Zaderej:** And, of course, just took--.

**Mr. John Gillings:** --Okay--.

**Ms. Karen Zaderej:** --That price increase in March. So, um, the primary, um, impact was in that--in the early part of the year.

**Mr. John Gillings:** Okay. And so, that'll anniversary next March.

All right, uh, that's it for us. Thanks.

**Ms. Karen Zaderej:** Thanks, John.

**Mr. Bob Johnston:** Thank you, John.

**Operator:** There appears to be no further questions at this time. So, I'd like to turn the floor back over to management for any closing remarks.

**Ms. Karen Zaderej:** Thank you, everybody, for joining us.

Um, oh, there--yeah. There--it looks like there might be additional, uh, question from Nathan.

**Operator:** Sure.

This is the operator. Uh, we do have a call--uh, a question from Nathan Cali with Noble Financial.

Please go ahead, Nathan.

**Mr. Nathan Cali:** Oh, hey, guys. How you doing? Sorry, I was, uh, on speaker trying to ask a question. So, maybe that's why it didn't go through.

**Ms. Karen Zaderej:** Oh, yeah. No, thanks, Nathan. I got interrupted just as I was getting ready to say goodbye, but I'm glad that you are here.

**Mr. Nathan Cali:** Yeah. Um, so, uh, just, you know, a lot of my questions were answered. I just wanted to ask you guys, what do you think the major key differences are as I haven't gone through the significant details yet between PDL and your new agreement, um, and what would you point to there as either the same or not the same?

**Mr. Bob Johnston:** So, I think they're all, um, significant, uh, benefits.

**Mr. Nathan Cali:** Yeah.

**Mr. Bob Johnston:** Um, what we've stressed, and, Nathan, a good question, um, it is going to substantially reduce our yearly debt payments compared to the prior deal. And we have been able to take advantage of current market terms today that has better positioned the company. So, that is the--uh, the biggest, uh, benefit, um, to the, um, new financing that we've done with Oberland.

I will say that it's a six year deal that's interest only. The principle is due at the end of the six year term. And, uh, we have the ability to prepay, which we didn't have before. And they've also then, uh, taken an equity position, which we think is also favorable in supporting AxoGen and its future prospects.

**Ms. Karen Zaderej:** And I'd add that this also gives us an additional potential seven million that we could draw at a point, uh, again in the future just extending our-- and increasing our options as we--uh, as we look at our growth plans.

**Mr. Nathan Cali:** Okay. And you feel--I think you guys made a comment that your current cash of I believe 11 million is expected to carry you for the next 12 months.

**Mr. Bob Johnston:** Correct. It's 11.8 million at the end of September that will take us for at least the next 12 months.

**Mr. Nathan Cali:** Okay. And then, on a breakeven point can you just, uh, mention that real quick? From a top line perspective where do you guys expect to be breakeven at?

**Mr. Bob Johnston:** Um, you know, we mentioned earlier, Nathan, that, you know, at this point we haven't provided guidance beyond 2014.

**Mr. Nathan Cali:** Okay.

**Mr. Bob Johnston:** And we'll continue to evaluate, uh, as our business grows and the needs for the business.

**Mr. Nathan Cali:** Okay. All right, great. Thanks a lot for taking the, uh, last minute question there.

**Ms. Karen Zaderej:** Thanks, Nathan--.

**Mr. Bob Johnston:** --Thanks, Nathan.

**Mr. Nathan Cali:** Yep.

**Operator:** Thank you.

We also have another question and that's from Bill Bisinet [sp] with MidAmerica [sp].

Please go ahead.

**Mr. Bill Bisinet:** Yeah, good quarter, guys.

Um, I got a question for you within your market on your product lines, uh, primarily your AxoGen AxoGuard competitors, which, uh, it appears to be, uh, products made by Cenova, Lifescience--uh, Integra Lifesciences and Stryker. Um, they compete against AxoGuard.

Can you tell me--or do you know what the, uh, current, uh, revenue is for these products for these companies, uh, on a yearly basis, one? And two, on the other side of the business your, um, Avance product, which I would assume beats--competes mainly with autograft [sp], which is, uh, you know, taking a nerve from another part of the body, unless there's a new competitor in there, what the revenue possibilities are for that market on a yearly basis--?

**Ms. Karen Zaderej:** So--.

**Mr. Bill Bisinet:** --Is my question--?

**Ms. Karen Zaderej:** --Let me step back and talk about our competition. We compete against some off-the-shelf products, and we also compete against autograft, which is taking a nerve from somewhere else in the patient's body and transplanting it.

Um--

**Mr. Bill Bisinet:** --Yeah--.

**Ms. Karen Zaderej:** --We also compete in many cases against direct repair where surgeons will, um, not need to have a--uh, a graft because there's not substantial loss in deficit but they still need to align the two nerve ends. And so, those are the ways that we compete in the transected nerve space.

Um, in terms of those areas, we compete a little differently than what the other off-the-shelf products do. We look first at the direct repair and believe that we offer a beneficial connector that, uh, helps to provide as a coaptation aid alignment for those, uh, severed nerve ends. Um, that's the AxoGuard Connector. Um, that is, uh, a market that for us is growing, um, uh, but we see a lot of untapped potential there. Um, as soon as there's a gap then we recommend the Avance Nerve Graft. And so, that's algorithm that we teach and, uh, demonstrate to surgeons.

Um, today surgeons comparatively will use a whole combination of things. Some will use the--uh, the off-the-shelf, um, conduits, the hollow-tubes. Um, those are sold up to a length of 30 millimeters, although typically they're used in 10 millimeters or less. Um, some surgeons do use them longer, but typically they're used in 10 millimeters or less and predominantly only in digital nerve injuries. Um, in all other types of injuries they're going to use an autograft.

And so, the biggest, um, competition for us is autograft, again a technique not a product. Um, when I look at the rest of the market then in these digital nerve injuries where the hollow-tubes, the short grafts that are used--where the hollow-tubes are used, um, the market size of that today we don't have a great estimate because, uh, those product lines are fairly small.

So, they're not broken out in the public documents, but if we extrapolate from a number of sources, we would estimate that it's a 50, \$55 million market, um, of existing sales today and--uh, and sold by the three companies that you listed.

**Mr. Bill Bisinet:** Oh, uh, thanks for that.

And then on the autograft side, uh, obviously it's not a product, but the amount of money that's spent doing that per year, uh, you would estimate is, uh, in hundreds of millions?

**Ms. Karen Zaderej:** It's substantial. Um, I guess I've never really thought about it in total, but, uh, what we do is we look at it in comparison to doing that same technique with our product. And--.

**Mr. Bill Bisinet:** --Right--.

**Ms. Karen Zaderej:** --If you do an autograft, it does cost quite a bit of money, first, and importantly in our healthcare system it's not reimbursed separately. So, it is not--it's simply a cost for the hospital. There is no financial payment for the autograft, and an autograft takes substantial amounts of operating room time. Um, typically it adds 30 to 90 minutes of additional operating room time. Uh, hospitals all have their own estimates of what a minute of OR time costs, but it's anywhere from 67 to well over a \$100 a minute.

Uh, so that's expensive. Um, there's supplies that are in, uh, suturing back up that second surgical site. There's risk of more--of complications, like surgical site infections, which today hospitals are financially responsible for if that patient readmits. And--uh, and lastly because you've got two different surgical sites in the body, they'll use general anesthesia. And--uh, and with our product they're able to go to a regional or local anesthesia. So, it certainly helps to reduce the cost for the hospital.

**Mr. Bill Bisinet:** Well, that leads to next question is does that become more of a pull-through? You're pulling the surgeon through the hospital because of the, uh, efficiencies the hospital gains or do you find your sales, as you had mentioned, are

pushed through the surgeon and then hospital adopts your product and store--and stocks it?

**Ms. Karen Zaderej:** So, it's actually both, uh, but the most important thing is the surgeon. The surgeon is the person who decides the care for that patient and--uh, and then the hospital actually buys the product. And so, we do need to work with both. Uh, both are concerned about outcomes, uh, but it is the surgeon's decision on the final care of that patient.

**Mr. Bill Bisinet:** Okay, thank you so much.

**Ms. Karen Zaderej:** Thank you.

With that, thank you, everybody, for joining us on our third quarter 2014 call.

**Operator:** Thank you. The conference has now concluded.

Thank you for attending today's presentation. You may now disconnect.