

August 14, 2012



AxoGen, Inc. Reports Record Second Quarter 2012 Revenues

ALACHUA, Fla.-- AxoGen, Inc. (OTCBB: AXGN):

Second Quarter 2012 Highlights

- Record revenues of \$2.01 million, a 64% increase from second quarter 2011
- Gross profit for second quarter 2012 increased 89% to a record \$1.5 million
- Gross profit margins improved to 75% compared to 65% for the same period in 2011

AxoGen, Inc. (OTCBB: AXGN), a leading regenerative medicine company focused on the commercialization of proprietary products and technologies for peripheral nerve reconstruction and regeneration, today announced revenues for the second quarter ended June 30, 2012 of \$2.01 million, a 64% increase over second quarter 2011 revenues of \$1.65 million.

“We are pleased to once again have a record quarter,” commented Karen Zaderej, Chief Executive Officer of AxoGen, Inc. “We continue to gain traction in the market by building awareness of our products and I am particularly pleased with the level of receptivity we’re experiencing with surgeons to our entire product portfolio. The handling characteristics and growing body of clinical data continue to drive adoption of Avance® Nerve Graft. In addition, during this quarter we saw solid growth of our AxoGuard® Nerve Protector and AxoGuard® Nerve Connector. AxoGen’s portfolio of products for nerve repair have unique features that are making them the product of choice with many surgeons.”

Revenues

Revenues for the period were \$2.01 million, a 64% increase, compared to \$1.23 million in 2011. The improved results were primarily due to improving sales and marketing efforts which have been focused on the development of new accounts as well as improved penetration into key accounts.

Sequentially, revenues improved 22% from the reported first quarter 2012 of \$1.65 million.

Gross Profit

Gross profit reached \$1.51 million, an 89% increase, for second quarter 2012 up from \$0.80 million reported for the same period 2011. The higher gross profit was the result of increased revenues combined with lower manufacturing cost. The gross profit margin increased to 75% compared to 65% for the same quarter last year.

Sales and Marketing Expenses

During the period sales and marketing expenses increased to \$1.58 million from \$0.95 million reported during the same period last year. The higher expenses were primarily the result of the companies continued expansion and support of direct sales and independent distributors. As of the end of the period, the Company reported 16 direct and 21 independent sales representatives and distributors.

Research and Development Expenses

Research and development expenses increased to \$0.37 million during the quarter. Substantially all of the research and development expenses relate to expenditures for clinical activity.

General and Administrative Expenses

General and administrative expenses decreased to \$1.14 million for the period, compared to \$1.20 million reported last year. These decreases were principally a result of a decrease in legal and consulting services.

Loss From Operations and Net Loss

The Company reported loss from operations of \$1.59 million compared to loss from operations of \$1.45 reported during the same period in 2011. The Company reported a net loss of \$1.03 million, or \$0.09 per common share, compared to a net loss of \$2.0 million, or \$1.65 per common share, reported during the same period in 2011. Net loss was reduced by a non-recurring income tax benefit in the amount of approximately \$736,000, representing approximately \$.07 per share.

Financial Liquidity

At June 30, 2012, the Company had \$4.6 million in cash and cash equivalents, with approximately \$4.9 million in debt outstanding. The Company has entered into a two year Interim Revenue Purchase Agreement, pursuant to which the Company received \$1.75 million in exchange for the sale of specified future cash royalty payments. As a result of continuing capital needs, and other factors, the Company is considering raising additional funds through public or private equity offerings, debt financings, royalty contracts or other sources.

Earnings Call Information

As previously announced, AxoGen, Inc. management will review second quarter 2012 financials during a conference call scheduled for August 15, 2012 at 11:00 AM Eastern Time. The conference call information is as follows:

Conference dial-in: 888-254-3601

International dial-in: 913-312-1491

Conference ID: 3662214

Webcast: www.axogeninc.com/investors.html

A webcast replay of the conference call will be available under the “Investor” tab on the Company’s website, www.axogeninc.com.

About AxoGen, Inc.

AxoGen (OTCBB: AXGN) is a leading regenerative medicine company with a portfolio of proprietary products and technologies for peripheral nerve reconstruction and regeneration. Every day, people suffer traumatic injuries or undergo surgical procedures that impact the function of their peripheral nerves. Peripheral nerves provide the pathways for both motor and sensory signals throughout the body and their damage can result in the loss of function and feeling. In order to improve surgical reconstruction and regeneration of peripheral nerves, AxoGen has developed and licensed patented and patent-pending technologies, which are used in its portfolio of products. This portfolio includes Avance® Nerve Graft, the only commercially available allograft nerve for bridging peripheral nerve discontinuities (a gap created when the nerve is severed) of up to 70mm in length.

AxoGen’s portfolio also includes AxoGuard® Nerve Connector, a coaptation aid allowing for close approximation of severed nerves, and AxoGuard® Nerve Protector, a bioscaffold used to reinforce a coaptation site, wrap a partially severed nerve or isolate and protect nerve tissue. AxoGen is bringing the science of nerve repair to life with thousands of surgical implants of AxoGen products performed in hospitals and surgery centers across the United States, including military hospitals serving U.S. service men and women.

AxoGen is the parent of its wholly owned operating subsidiary, AxoGen Corporation. AxoGen’s principal executive office and operations are located in Alachua, FL.

Cautionary Statements Concerning Forward-Looking Statements

This Press Release contains “forward-looking” statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on management’s current expectations or predictions of future conditions, events or results based on various assumptions and management’s estimates of trends and economic factors in the markets in which we are active, as well as our business plans. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “projects”, “forecasts”, “may”, “should”, variations of such words and similar expressions are intended to identify such forward-looking statements. The forward-looking statements may include, without limitation, statements regarding product development, product potential or financial performance. The forward-looking statements are subject to risks and uncertainties, which may cause results to differ materially from those set forth in the statements. Forward-looking statements in this release should be evaluated together with the many uncertainties that affect AxoGen’s business and its market, particularly those discussed in

the risk factors and cautionary statements in AxoGen's filings with the Securities and Exchange Commission. Forward-looking statements are not guarantees of future performance, and actual results may differ materially from those projected. The forward-looking statements are representative only as of the date they are made, and AxoGen assumes no responsibility to update any forward-looking statements, whether as a result of new information, future events or otherwise.

AxoGen, Inc.

Condensed Consolidated Balance Sheets

	June 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$4,638,793	\$8,190,781
Accounts receivable	862,228	797,654
Inventory	2,467,787	1,760,540
Prepaid expenses and other	240,678	133,500
Total current assets	8,209,486	10,882,475
Property and equipment, net	176,995	247,824
Goodwill	169,987	169,987
Intangible assets	884,935	899,480
Deferred Financing Costs	266,550	295,276
Other assets	129,702	--
	\$9,837,655	\$12,495,042
	June 30, 2012 (unaudited)	December 31, 2011
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,704,033	\$1,585,100
Current portion of long-term debt	1,402,226	434,734

Total current liabilities	3,106,259	2,019,834
Long-term debt	3,460,751	4,403,737
Total liabilities	6,567,010	6,423,571
Commitments and contingencies	--	--
Stockholders' equity:		
Common stock, \$.01 par value; 50,000,000 shares authorized; 11,104,037 and 11,062,188 shares issued and outstanding	111,040	110,622
Additional paid-in capital	54,729,584	54,391,784
Accumulated deficit	(51,569,979)	(48,430,935)
Total stockholders' equity	3,270,645	6,071,471
	\$ 9,837,655	\$ 12,495,042

AxoGen, Inc.

Consolidated Statements of Operations

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues	\$ 2,012,513	\$ 1,225,495	\$ 3,665,943	\$ 2,347,056
Cost of goods sold	501,917	424,303	941,075	763,080
Gross profit	1,510,596	801,192	2,724,868	1,583,976
Costs and expenses:				
Sales and marketing	1,581,875	948,026	3,210,483	1,805,002
Research and development	367,363	101,117	663,494	206,708
General and administrative	1,148,161	1,203,271	2,378,769	1,925,436
Total costs and expenses	3,097,399	2,252,414	6,252,746	3,937,146
Loss from operations	(1,586,803)	(1,451,222)	(3,527,878)	(2,353,170)
Other income (expense):				
Interest expense	(125,218)	(405,690)	(250,343)	(636,250)
Interest expense—deferred financing costs	(59,983)	--	(94,934)	(1,031,406)
Change in fair value of warrant liability	--	181,765	--	62,305
Other income (expense)	5,851	(2,643)	(2,323)	(10,543)
Total other income				

(expense)	(179,350)	(226,568)	(347,600)	(1,615,894)
Loss before income taxes	(1,766,153)	(1,677,790)	(3,875,478)	(3,969,064)
Income tax benefit	736,434	--	736,434	--
Net loss	\$(1,029,719)	\$(1,677,790)	\$(3,139,044)	\$(3,969,064)
Preferred stock dividends (assumes all paid)	--	322,739	--	698,518
Net loss available to common shareholders	(1,029,719)	(2,000,529)	(3,139,044)	(4,667,582)
Weighted Average Common Shares outstanding – basic and diluted	11,084,620	1,214,514	11,073,480	1,210,082
Loss Per Common share - basic and diluted	\$(0.09)	\$(1.65)	\$(0.28)	\$(3.86)

AxoGen, Inc.

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended	
	June 30, 2012	June 30, 2011
Cash flows from operating activities:		
Net loss	\$(3,139,044)	\$(3,969,064)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	101,869	147,162
Amortization of intangible assets	63,671	22,707
Amortization of deferred financing costs	45,427	1,031,406
Amortization of debt discount	24,506	11,435
Stock-based compensation	329,062	60,000
Change in fair value of warrant liability	--	(62,305)
Change in assets and liabilities:		
Accounts receivable	(64,574)	(208,478)
Inventory	(707,247)	(54,511)
Prepaid expenses and other	(236,880)	(96,236)
Accounts payable and accrued expenses	118,933	655,348
Net cash used for operating activities	(3,464,277)	(2,462,536)

Cash flows from investing activities:

Purchase of property and equipment	(31,040)	--
Acquisition of intangible assets	(49,126)	(25,550)
Net cash used for investing activities	(80,166)	(25,550)

Cash flows from financing activities:

Proceeds from issuance of long-term debt	--		3,000,000
Debt issuance costs	(16,701)		(82,346)
Proceeds from exercise of stock options	9,215		1,149
Payment of fractional shares from Merger	(59)		--
Net cash (used by) provided by financing activities	(7,545)	2,918,803
Net increase (decrease) in cash and cash equivalents	(3,551,988)		430,717
Cash and cash equivalents, beginning of year	8,190,781		1,799,048
Cash and cash equivalents, end of period	4,638,793		2,229,765

Supplemental disclosures of cash flow activity:

Cash paid for interest	\$276,718		\$397,623
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Supplemental disclosure of non-cash investing and financing activities:

Accretion of dividends of Series B preferred stock	\$--		\$200,602
Accretion of dividends of Series C preferred stock	--		349,807
Accretion of dividends of Series D preferred stock	--		148,109

See notes to condensed consolidated financial statements.

COCKRELL GROUP

Rich Cockrell, 404-942-3369

Investorrelations@thecockrellgroup.com

www.cockrellgroup.com

or

AxoGen, Inc.

Greg Freitag, Chief Financial Officer, 386-462-6856

InvestorRelations@AxoGenInc.com

www.axogeninc.com

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