

Ex-employees blow the lid on MiMedx sales scheme

Prior to Viceroy's publications, we filed a significant data bundle of evidence to the SEC Whistleblower program. We always believe where appropriate in notifying regulators first. We understand some may not wish to disclose or communicate with Viceroy, however can contact the SEC directly: <https://www.sec.gov/whistleblower>. Viceroy has previously published on MiMedx detailing its dubious hiring practices, connections to related party employee owned distributors, improper government filings and undisclosed SEC investigation.

Many former MiMedx employees **that are not in legal conflict with MiMedx** have reached out to Viceroy to provide information and corroboration of our investigations.

In this report, we detail:

- Allegations corroborated by whistleblowers that **MiMedx engage in a scheme with its distributors**, in which larger and / or a number of small products are labeled as cheaper products. This scheme would draw attention away from MiMedx financial accounts as there are no 'direct' cash kickbacks to distributors, but **distributors can unsuspectingly make large margins on marked up products.**
- Further apparent MiMedx related party entities controlled Donovan Schmidt, all of which appear to deal with medical products - we have a lot more to come on this.
- MiMedx former subsidiary and current distributor Stability Biologics' history as a with Osiris Therapeutics, a former NASDAQ listed competitor who is under investigation by the US Attorney's Office for a criminal offence which, Viceroy believe this investigation is likely related to channel stuffing practices and revenue recognition.

Allegations as they stand are so substantial that Viceroy are now engaging in dialogue with the Department of Justice.

Viceroy's previous reports detailing fundamental issues within MiMedx (NASDAQ: MDXG) can be read here:

Part 1: <https://viceroyresearch.org/2017/09/20/mimedxs-nasdaqmdxg-employment-of-kickback-bribery-scheme-inducers-makes-it-uninvestable/>

Part 2: <https://viceroyresearch.org/2017/09/26/the-same-old-story-mimedxs-response-is-typical-of-companies-trying-to-cover-their-tracks-and-is-unacceptable/>

Part 3: <https://viceroyresearch.org/2017/10/02/mimedxs-channel-stuffing-hard-evidence/>

Part 4: <https://viceroyresearch.org/2017/10/03/mimedxs-selective-non-compete-litigation-questionable-disclosures/>

Part 5: <https://viceroyresearch.org/2017/10/04/how-are-mimedx-making-their-numbers/>

More to come...

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Viceroy's continuing investigations into alleged MiMedx channel stuffing and kickback and bribery scheme

We have received **numerous corroborating allegations from independent former employee whistleblowers on how MiMedx allegedly facilitate a scheme with its distributors.**

Whistleblowers claim that sending cash to MiMedx's distributors (which are also claimed to include a number of PODs) is too obvious.

It is alleged that management opt to repackage or label larger, more expensive products as smaller packages i.e. cheaper goods.

This would mean:

- Distributors, including PODs, were incentivized to purchase from MiMedx as they could substantially mark-up products without arousing suspicion from cash kickbacks from MiMedx.
- MiMedx's financial accounts would not suffer substantially from these product kickbacks as COGS for MiMedx products are incredibly low.
- MiMedx's accounts would avoid suspicion from the Sunshine Act, Anti-Kickback Statute, Stark Law.

Further, whistleblowers have claimed that all sales to distributors are final. Distributors would then allocate (i.e. channel stuff) commercial customers with consignment stock, which is eventually returned to the distributors, not MiMedx.

Viceroy's investigations into these allegations will continue and we have directed these former employees, together with their evidence, directly to the SEC. Allegations as they stand are so substantial that Viceroy plan to engage in dialogue with the Department of Justice.

Further Schmidt connections: two further employee controlled companies

Viceroy have previously investigated MiMedx employee Donovan Schmidt, and appears in open violation of MiMedx's non-compete agreement with the ownership of what appear to be medical product distributorships. Viceroy have uncovered two further suspicious companies former **MiMedx employees claim in court filings are part of the greater scheme of channel stuffing through employee-owned distributorships.**



Figure 1 Extract from Donovan Schmidt's LinkedIn profile ¹

Viceroy has previously detailed Donovan Schmidt's ownership of Bio-Tech Enterprises LLC. Donovan Schmidt is also the owner and founder of Advanced BioMaterials LLC, another Georgia company.

BUSINESS INFORMATION			
Business Name:	ADVANCED BIOMATERIALS LLC	Control Number:	09043123
Business Type:	Domestic Limited Liability Company	Business Status:	Active/Compliance
Business Purpose:			
Principal Office Address:	3555 Southlake Ct, Cumming, GA, 30041, USA	Date of Formation / Registration Date:	6/17/2009
State of Formation:	Georgia	Last Annual Registration Year:	2017
REGISTERED AGENT INFORMATION			
Registered Agent Name:	Schmidt, Donovan		
Physical Address:	3555 southlake ct, Forsyth, cumming, GA, 30041, USA		

Figure 2 Business information for Advanced Biomaterials LLC²

Note that this entity is still classified as active and compliant.

Donovan Schmidt's wife is Shannon Renee Schmidt, previously Shannon Renee Bryant, as evidenced by Donovan's Facebook profile.

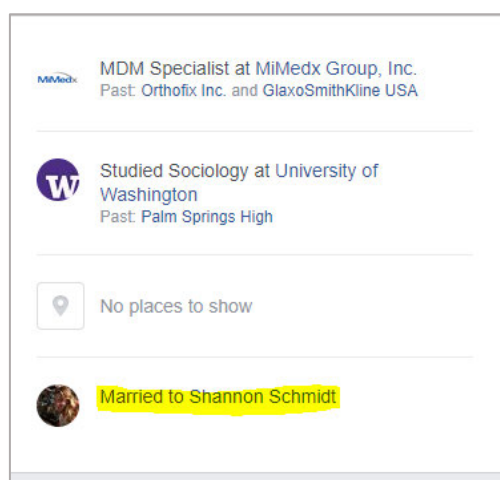


Figure 3 Extract from Donovan Schmidt's Facebook profile³

¹ <https://www.linkedin.com/in/donovan-schmidt-78969211/>

² Visit <https://ecorp.sos.ga.gov/BusinessSearch> and search for "ADVANCED BIOMATERIALS LLC"

³ <https://www.facebook.com/donovan.schmidt.3/about?lst=1019294263%3A1305962461%3A1507189597>

Shannon Schmidt also owns SRS Orthopedic LLC, ostensibly using her initials to name the company. Considering that Shannon’s **education and prior workplace experience is in advertising**, we find it suspicious for her **to own and maintain an orthopedics-related business**. Viceroy finds it more likely that Donovan Schmidt created the business under his wife’s name.

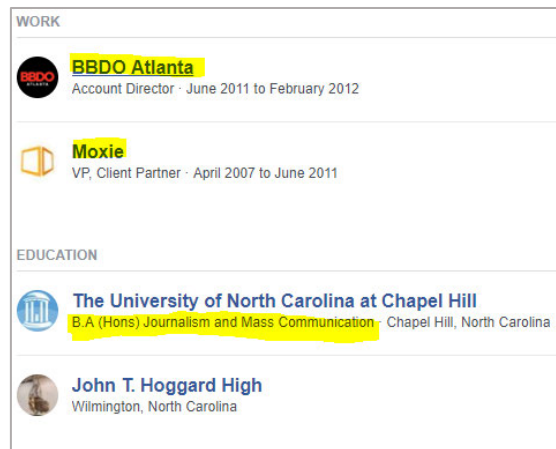


Figure 4 Extract from Shannon Schmidt’s Facebook profile⁴

BUSINESS INFORMATION	
Business Name:	SRS ORTHOPEDIC, LLC
Business Type:	Domestic Limited Liability Company
Business Purpose:	
Principal Office Address:	3555 Southlake Ct, cumming, GA, 30041, USA
Date of Formation / Registration Date:	1/28/2013
State of Formation:	Georgia
Last Annual Registration Year:	2016
Dissolved Date:	08/24/2017
Control Number: 13066956	
Business Status: Admin. Dissolved	
REGISTERED AGENT INFORMATION	
Registered Agent Name:	SHANNON SCHMIDT
Physical Address:	4181 BARNES MEADOW RD SW, Cobb, SMYRNA, GA, 30082, USA

Figure 5 Business information for SRS Orthopedic LLC⁵

Note that both businesses are registered at the same Georgia address. If we assume Donovan Schmidt to be the ultimate controller of SRS Orthopedics LLC, that brings the number of suspicious companies under his control to three.

Why did Donovan Schmidt, in addition to Bio-Tech Enterprises LLC, also own Advanced BioMaterials LLC?

Why does Shannon Schmidt, with no apparent experience or education in healthcare, own a company called SRS ORTHOPEDIC LLC?

Viceroy believe these businesses represent related party distributors to MiMedx.

⁴ <https://www.facebook.com/shannon.schmidt.104>

⁵ Visit <https://ecorp.sos.ga.gov/BusinessSearch> and search for “SRS ORTHOPEDIC, LLC”

Stability Biologics

Stability Biologics, which was acquired by MiMedx, is a human tissue products provider to the healthcare industry closely aligned with MiMedx's business model: it developed regenerative products and had a large distributor network.

As Viceroy has previously reported - somewhat ironically - it appears that Stability biologics was itself channel-stuffing, as a \$10m payment for the Stability biologics business drew a \$3.4m offset due to returned and/or expired stock.

Further to this, Viceroy now highlight that Stability Biologics was previously a major sales agent for one of MiMedx's competitors, Osiris Therapeutics. As a competitor and threat to their business, MiMedx naturally sued Osiris Therapeutics at least once to our knowledge⁶.

Osiris, similar to MiMedx, hired numerous staff members from Advanced BioHealing. Advanced BioHealing, as we have previously mentioned, operated a kickback and bribery sales inducement scheme which resulted in the largest settlement of a False Claims Act to date of \$350m, and a \$600m write down by Shire.

As readers may recall, Osiris Therapeutics is investigated for criminal offences by the U.S. Attorney's office⁷ amidst:

- The CFO quitting⁸
- The auditors quitting⁹
- The CEO quitting¹⁰
- The company being unable to file 10-K
- Former Advanced BioHealing employee Todd Clawson pleading guilty in VA fraud case¹¹

Stability Biologics generated up to 64% of Osiris' revenues¹².

Despite being intertwined with this abysmal business, MiMedx still considered it a good idea to buy this business. Viceroy believe that it would be near impossible for MiMedx management not to be aware of Osiris' dodgy business practices at the time of acquisition.

Viceroy believe MiMedx's acquisition of Stability Biologics was more sinister than implied.

Stability Biologics is still signed on as a sales distributor with MiMedx.

⁶ <http://www.prnewswire.com/news-releases/mimedx-files-lawsuit-against-osiris-for-false-and-misleading-representations-300269843.html>

⁷ https://www.sec.gov/Archives/edgar/data/1360886/000110465916124092/a16-12401_18k.htm

⁸ <http://investor.osiris.com/releasedetail.cfm?releaseid=932060>

⁹ <https://seekingalpha.com/news/2992116-osiris-12-8-percent-disclosing-auditors-resignation>

¹⁰ <https://seekingalpha.com/news/3085726-osiris-chief-exit-reinforces-problems-company>

¹¹ <http://www.massdevice.com/former-advanced-biohealing-ceo-clawson-pleads-guilty-va-fraud-case/>

¹² https://www.sec.gov/Archives/edgar/data/1360886/000110465914037626/a14-9603_110q.htm