

More whistleblowers come forward with details of MiMedx sales scheme

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**. Since publication 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.

Information Viceroy has received from a further Whistleblower expands and gives details into the channel stuffing practices at MiMedx, including the structure of the employee and physician owned distributors and mechanisms of sales enticements.

Prior to Viceroy's publications, we filed a dossier 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>

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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/>

Part 6: <https://viceroyresearch.org/2017/10/05/ex-employees-blow-the-lid-on-mimedx-sales-scheme/>

More to come...

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Further Whistleblower allegations

Viceroy spoke with a former MiMedx employee who was employed for a number of years. The **former employees had no law suits and no stock in the company**. The following is a presentation of their statements to Viceroy. For clarity, the content of the call is recorded below with direct quotes in quotation marks as the former employee declined to be recorded.

The specific former employee uncovered a massive number of people illegally selling MDXG products. The majority of the sales representatives at the time owned LLCs with doctors and physicians, and were charging the hospitals 4-5x the value of the received goods.

“Majority of sales are from distributors...essentially doctors & physicians got paid twice”

Viceroy have recreated the structure of the employee and physician owned LLC's and how they interact with the VA hospitals.

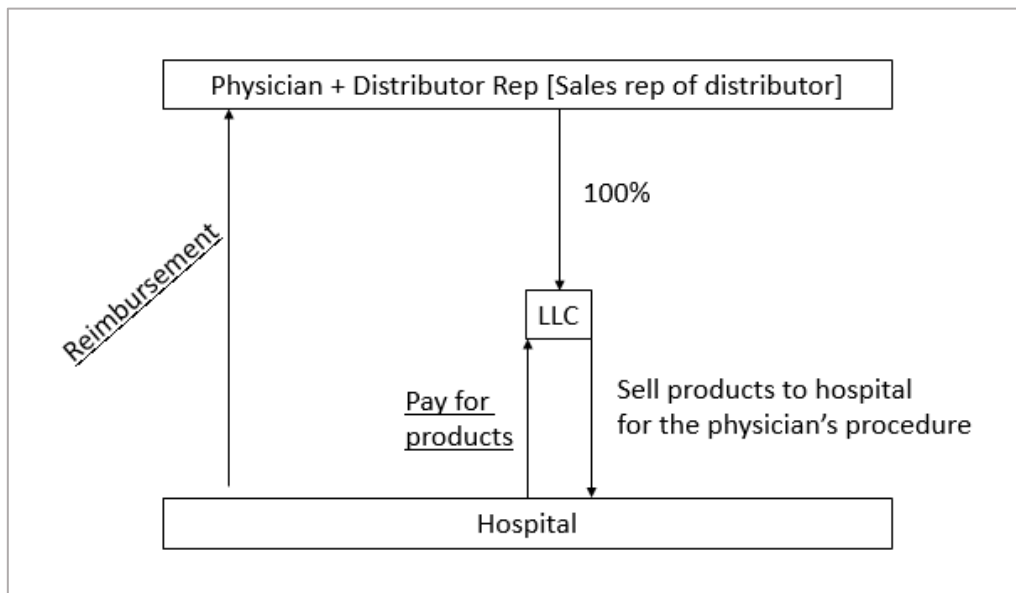


Figure 1 Diagram of the structure of the physician and employee owned sales apparatus

In effect, this scheme was paying both the sales representatives and the physicians twice:

1. The physician and distribution representative (sales representative, sales agent, or other company rep) will setup a LLC (Limited Liability Company)
2. The LLC would sell products to hospitals for physician procedures, including the physician acting as an agent for MiMedx products
3. The physicians would get paid twice this way: once with the reimbursement from the hospital and then again through the LLC for the sale of the product (i.e. commission).

We have notified the SEC/DOJ of these concerns as we were informed local invoices will prove MiMedx is conducting this activity.

Whistleblower transcript extract & commentary

In relation to a scheme to overcharge the VA for MiMedx product. These

"I saw nurses get bribed"

Hospitals were often charged for 4-5x times their real product purchase value. This is the way the scheme has been described:

1. MiMedx / distributors change the SKU on labelling to represent a more expensive product, but the *lot* numbers remain the same for medical stock-take
2. Nurse enters lot numbers and SKU in hospital system - which do not match – together with the applicable reimbursement amount of the SKU
3. The price of the products are determined by SKU's, thus reimbursements are inflated 4-5x

In effect, the lot numbers appear unaltered while the price of the items in that lot are inflated by 4-5x: hospitals including the VA are being massively overcharged. We have advised our sources that this information would be relayed to the proper authorities.

"...there were many meetings. These meetings included Michael Carlton and Pete Petit. There were multiple issues and concerns but the practices continued. Everything in the Aurelius and Viceroy reports, I can attest to."

"The work around - Petit has a history of hiring great sales reps but makes them sign crazy non-competes so they have a hard time disclosing what's been happening. There's been an exodus of reps from the Company but most are too terrified to talk or are still bound by non-compete agreements. The company will force up to 2-year non-competes."

Viceroy believes this speaks for itself. The only difference between former employees not facing legal action and the whistleblowers MiMedx is so vigorously pursuing is that Tornquist and Kruchoski were able and willing to reveal the whole scheme.

"SLR and CPM are all real and very involved, they're all associated with MiMedx and clever try and deny it...Jerry Morrison was the front guy when I was there, he meets with Parker Petit directly...Morrison would give Pete Petit a purchase order and get the product into the market...Petit was directly involved for the years I was there... Absolutely sure that he [Morrison] is still involved"

"A lot of the shady stuff at the Company was happening from the top and circumventing the local reps. This enabled MiMedx to make the numbers a lot of quarters when they would have failed."

Viceroy and Aurelius Value have previously detailed Jerry Morrison's involvement with SLR Medical Consultants, a MiMedx distributor he appeared to operate during his employment at MiMedx.

While Viceroy were under the impression that Morrison operated this on a "don't ask, don't tell" basis with management, we were informed that Petit and Morrison met directly to coordinate this activity.

“There are tons of “Frank Braly’s” who are the middlemen between MDXG and guys like Jerry Morrison”

Up until late 2015 CPM Medical Consultants had exclusive rights to market MiMedx products in the Texas region and then SLR Medical Consultants became new CPM. Former employees estimate 95% of product in that specific region went through SLR. Some of the products would then go through other distributors from SLR; sometimes they would go through multiple distributors.

While Petit claims that 5% of sales are distributors Viceroy was informed that this is:

“...total nonsense, there’s no way they could make their numbers without the distributors.”

Viceroy believes that since the termination of AvKare’s contract with MiMedx these employee and physician owned distributors have been taking up the slack. In effect we believe the slow conclusion of the AvKare contract was not to move customers onto the MiMedx DFS but to move their customers to employee and physician owned distributors.

“[!] Think the doctors involved in the schemes are probably freaking out. This publicly won’t be good for the doctors; the doctors will be nervous.”

“You can’t fathom the amount of fraud that was happening”

Viceroy have submitted our all our findings to the relevant authorities including the Office of the Inspector General of the Veterans Affairs.

We would like to finish this segment with the following two quotes which we believe highlight the dangers facing the investors that continue to believe the narrative MiMedx is attempting to sell:

“No way Petit didn’t think this Company wouldn’t be sold already”

“I have seen documentation that every bit of that [Viceroy] article is true”

Conclusion

As more whistleblowers come forward to provide Viceroy with information we are getting a clearer picture of the company and its channel stuffing operations.

There seems to be something of an ‘elite’ group of personnel within MiMedx; those it will close ranks to protect regardless of their conduct. Viceroy believes given their pursuit of a non-compete lawsuit against a former top salesman¹ that admittance to this ‘elite’ group is not based on the benefit they provide to the company. Instead, it is comprised those who generate the most personal wealth for Petit and friends through *whatever* means necessary.

Viceroy believes MiMedx is uninvestable.

¹ CASE 0:16-cv-04171-RHK-BRT Document 4