Bacterin International Holdings, Inc.
Form 8-K
July 07, 2010

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 30, 2010

BACTERIN INTERNATIONAL HOLDINGS, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	333-158426	20-5313323
(State or other jurisdiction of incorporation)	(Commission File Number) Identification No.)	(IRS Employer)

600 Cruiser Lane Belgrade, Montana	59714
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (406) 388-0480

K-Kitz, Inc.
1630 Integrity Drive East, Columbus, Ohio 43209
(Former Name or Former Address, if Changed Since Last Report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4 (c) under the Exchange Act (17 CFR 240.13e-4(c))

CURRENT REPORT ON FORM 8-K

K-KITZ, INC.

June 30, 2010

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Items 1.01 Entry into a Material Definitive Agreement.

Summary

On June 30, 2010, we completed a reverse merger transaction (the "Reverse Merger"), in which we caused Bacterin International, Inc., a Nevada corporation ("Bacterin" or the "Company"), to be merged with and into KB Merger Sub, Inc., a Nevada corporation and our newly-created, wholly-owned subsidiary ("Merger Sub"). The reverse merger was consummated under Nevada corporate law pursuant to an Agreement and Plan of Merger, dated as of June 30, 2010 (the "Merger Agreement"), as discussed below. Concurrently with the closing of the Reverse Merger, we also completed a private placement of common stock and warrants to purchase common stock to accredited investors, and received gross proceeds of approximately $7,508,000 at the closing of the private placement.

As a result of the Reverse Merger, we are now engaged, through Bacterin, in the business of biomaterials research, development, and commercialization. Bacterin is expanding its intellectual property base and has successfully leveraged its technical expertise and knowledge of biofilms into multiple product areas. Bacterin is well positioned for future growth through established partnerships with major medical device manufacturers and provider networks, as well as through its own in-house sales force and its ongoing Bacterin product development of innovative tissue constructs and bioactive coated devices. Revenues for Bacterin come from product manufacturing, sales, distribution, licensing agreements and grants.

Before the Reverse Merger, our corporate name was K-Kitz, Inc., and our trading symbol was KKTZ.OB. On June 29, 2010, we changed our corporate name to "Bacterin International Holdings, Inc." which name change became effective for trading purposes on July 1, 2010. We intend to request a trading symbol change to correspond with our name change at the appropriate time and in accordance with FINRA policies that went into effect June 1, 2010. Accordingly, our trading symbol will remain KKTZ.OB until such time as we move to another market or otherwise can effect a trading symbol change through FINRA. As a result of the Reverse Merger, consummated pursuant to the Merger Agreement, Bacterin became our wholly-owned subsidiary, with the former stockholders of Bacterin acquiring 28,257,287 shares of our common stock, representing approximately 96% of our outstanding common stock prior to taking into account the issuance of any shares pursuant to the private placement.

Concurrently with the closing of the Reverse Merger, we completed an initial closing of a private placement to selected qualified investors of shares of our common stock at a purchase price of $1.60 per share and detachable warrants to purchase one-quarter share of our common stock (at an exercise price of $2.50 per share). In total, we sold 4,934,534 shares of our common stock and warrants to purchase 1,233,634 shares of common stock as part of this initial closing, and may sell up to an additional 6,268,472 shares of our common stock and warrants to purchase 1,567,118 shares of common stock to investors that participated in the initial closing, management and certain note holders until July 30, 2010, when the offering period expires. We received gross proceeds of $7,508,329 in consideration for the sale of the shares of common stock and warrants, which consisted of (i) $4,026,000 in cash from investors in the private placement and (ii) $3,482,329 from note holders in an earlier Bacterin bridge financing who converted into the private placement at a discount to the purchase price and received warrants with a discounted exercise price, as described below.

In order to fund Bacterin's working capital and capital expenditures during the months prior to the Reverse Merger and during the offering period, Bacterin and certain placement agents conducted two bridge financings of approximately $5,250,000 in aggregate principal amount of convertible notes and warrants, of which $3,400,000 plus $82,329 in interest accrued thereon was converted into the private placement (at a discount to the per share purchase price).

Concurrently with the closing of the Reverse Merger and the private placement, we repurchased 4,319,404 shares of our common stock from one of our stockholders for aggregate consideration of $100, as well as certain other good and valuable consideration, and immediately thereafter cancelled those shares.

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The Reverse Merger

General

At the closing of the Reverse Merger, the former stockholders of Bacterin received shares of our common stock for all of the outstanding shares of common stock of Bacterin held by them. As a result, at the closing of the Reverse Merger, we issued an aggregate of 28,257,287 shares of our common stock to the former stockholders of Bacterin. The shares issued to Bacterin's former stockholders represent approximately 96% of our outstanding shares of common stock, exclusive of 4,934,534 shares of common stock issued in the initial closing of the private placement, or approximately 82% of our outstanding shares of common stock, inclusive of such shares issued in the initial closing of the private placement. The consideration issued in the Reverse Merger was determined as a result of arm's-length negotiations between us and Bacterin.

Immediately prior to the closing of the Reverse Merger, the former stockholders of Bacterin and the note holders who participated in an earlier bridge financing conducted by Bacterin also held outstanding stock options and warrants to purchase shares of common stock of Bacterin. Pursuant to the Merger Agreement, we have agreed to issue shares of our common stock upon the exercise of these stock options and warrants in lieu of shares of Bacterin's common stock previously issuable thereunder, and, based upon the ratio used to determine the number of shares issuable to Bacterin stockholders in connection with the Reverse Merger, we are obligated upon the exercise of those stock options and warrants to issue 4,213,196 shares and 4,879,075 shares of our common stock, respectively.

To the extent any of Bacterin's former stockholders elect to exercise any dissenters' rights in connection with the Reverse Merger, we will be obligated to purchase any such dissenter's shares of Bacterin common stock for "fair value" as determined immediately prior to the Reverse Merger, all in accordance with Nevada law. In addition, we will also be obligated to issue additional shares of our common stock to the non-dissenting Bacterin stockholders such that the non-dissenting stockholders would have held approximately 96% of our outstanding shares of common stock immediately upon consummation of the Reverse Merger, exclusive of any shares of our common stock issued in the private placement. Certain of Bacterin's former stockholders, who held approximately 743,940 shares of Bacterin common stock in the aggregate, provided proper notice to perfect their ability to exercise dissenters' rights (or 371,970 shares of our common stock that they will receive in the Reverse Merger if they ultimately elect not to exercise such rights).

Changes Resulting from the Reverse Merger

We intend to carry on Bacterin's biomaterials business as our sole line of business. We have relocated our executive offices to those of Bacterin at 600 Cruiser Lane, Belgrade, Montana 59714. Our new telephone number is (406) 388-0480, fax number is (406) 388-1354, and corporate website is www.bacterin.com. The contents of our website are not part of this current report.

Our pre-Reverse Merger stockholders will not be required to exchange their existing K-Kitz, Inc., stock certificates for new certificates of Bacterin Holdings International, Inc., since the OTC Bulletin Board will consider our existing stock certificates as constituting "good delivery" in securities transactions subsequent to the Reverse Merger. The Nasdaq Capital Market, where we intend to apply to list our common stock for trading as soon as reasonably practicable, will also consider the submission of existing stock certificates as "good delivery." We cannot be certain that we will receive approval to list our common stock on the Nasdaq Capital Market.

Change of Board Composition and Executive Officers

Prior to the closing of the Reverse Merger and private placement, our board of directors was composed only of Jennifer Jarvis and Michael Funtjar. On June 30, 2010, concurrently with such transactions, Ms. Jarvis and Mr.

Funtjar expanded the size of the board of directors to five members, and appointed Guy S. Cook, Mitchell Godfrey, and Kent Swanson to fill the vacancies created thereby. The new directors then accepted the resignations of Ms. Jarvis and Mr. Funtjar and appointed Ken Calligar and Daniel Frank to fill the two vacancies created by their resignations. Upon their appointment, the new directors further expanded the size of the board of directors to six members, and appointed Gary Simon to fill the vacancy created thereby.

Mr. Cook, Mr. Godfrey and Mr. Swanson are all former Bacterin directors. Mr. Swanson, Mr. Calligar, Mr. Frank and Mr. Simon are independent of management. All directors will hold office until the next annual meeting of stockholders and the election and qualification of their successors.

Prior to the closing of the Reverse Merger and private placement, Ms. Jarvis was our President, Chief Executive Officer, and Chief Financial Officer and Mr. Funtjar was our Secretary and Chief Operating Officer. Ms. Jarvis and Mr. Funtjar resigned from all of those offices effective June 30, 2010.

On June 30, 2010, our board of directors named the following persons as our new executive officers: Guy S. Cook - Chairman of the Board, Chief Executive Officer and President; Mitchell Godfrey - Secretary and Treasurer; and John P. Gandolfo - Interim Chief Financial Officer. These individuals held those same positions with Bacterin, our wholly-owned subsidiary through which we conduct our business, prior to the Reverse Merger and will continue to carry on in the same capacities with Bacterin, as will Darrel Holmes - Executive Vice President of Medical Devices and Jesus Hernandez - Executive Vice President of Biologics. Mr. Gandolfo joined Bacterin as its interim Chief Financial Officer, effective June 4, 2010, and filled this position full time commencing on July 6, 2010. Officers are elected annually by our board of directors and serve at the discretion of our board.

We have assumed all of such officers' current employment agreements (including intellectual property ownership provisions and restrictive covenants relating to confidential information) and they have agreed to such assumption. See "Directors and Executive Officers - Employment Agreements" for the terms of those agreements.

The disclosure set forth under "Directors and Executive Officers" in Item 2.01 of this current report is incorporated herein in its entirety by reference.

Change of Stockholder Control

Except as described above under "Change of Board Composition and Executive Officers," no arrangements or understandings exist among our present or former controlling stockholders with respect to the election of persons to our board of directors and, to our knowledge, no other arrangements exist that might result in a change of control of our company. Further, as a result of our repurchase of shares from an existing stockholder and the issuance of 28,257,287 shares of common stock to the former stockholders of Bacterin, a change of stockholder control has occurred. Prior to the repurchase and the closing of the Reverse Merger, Jennifer Jarvis beneficially owned 82% of our outstanding shares of common stock. After these transactions, the former stockholders of Bacterin own approximately 96% of our outstanding shares of common stock, exclusive of shares of common stock acquired in the private placement through purchase or conversion or approximately 82% of our outstanding shares of common stock, inclusive of such shares of common stock acquired in the private placement through purchase or conversion. We are continuing as a "smaller reporting company," as defined under the Securities Exchange Act of 1934, as amended, following the exchange transaction.

The disclosure set forth under "Security Ownership of Certain Beneficial Owners and Management" in Item 2.01 of this current report is incorporated herein in its entirety by reference.

Accounting Treatment

In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations," and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma combined condensed financial statements, Bacterin is considered the accounting acquiror in the Reverse Merger. Because Bacterin's former stockholders as a group retained or received the larger portion of the voting rights in the combined entity and Bacterin's senior management represents all of the senior management of the combined entity, Bacterin was considered the acquiror for accounting purposes and will account for the exchange transaction as a reverse acquisition.

The acquisition will be accounted for as the recapitalization of Bacterin since, at the time of the acquisition, we were a company with minimal assets and liabilities. Consequently, the assets and liabilities and the historical operations that will be reflected in the consolidated financial statements will be those of Bacterin and will be recorded at the historical cost basis of Bacterin.

Amendments to Articles of Incorporation and Bylaws

In connection with the Reverse Merger, our board of directors and stockholders have approved and we filed on June 29, 2010, an amendment to our certificate of incorporation with the Secretary of State of the State of Delaware to change our name to Bacterin International Holdings, Inc.

Prior to the Reverse Merger, we amended our by-laws to permit us to set the size of our board of directors from between one and nine directors.

Bacterin International Equity Incentive Plan

We recently adopted the Bacterin International Equity Incentive Plan, which became effective prior to the Reverse Merger, under which 6,000,000 shares of our common stock are reserved for issuance as equity awards. The purpose of this plan is two-fold. First, in connection with the Reverse Merger, we are substituting each equity award granted under the Bacterin International, Inc. 2004 Stock Incentive Plan, as most recently amended effective April 1, 2009, with a substantially similar equity award granted under our new plan (subject to proportionate adjustments to reflect the ratios used in consummating the Reverse Merger). Accordingly, of the 6,000,000 shares of our common stock that are reserved for issuance as awards under this plan, 4,213,196 have been or will be issued as substitute awards, leaving an additional 1,786,804 shares for issuance thereunder, representing approximately 13.3%, 9.3% and 4%, respectively, of the fully-diluted shares of our common stock immediately following the Reverse Merger and the private placement. Second, the shares of stock remaining available for issuance under this plan will be used for attracting and retaining employees, management, directors and outside consultants, who will be granted awards at fair market value from time to time under the guidance and approval of our compensation committee or such other group as is vested by our board with the power to administer the plan, and in accordance with the terms of such equity incentive plan. See “Directors and Executive Officers - Incentive Compensation Plans.”

The Private Placement

Concurrently with the closing of the Reverse Merger, we completed the sale of 4,934,534 shares of our common stock and warrants to purchase an additional 1,233,634 shares of our common stock in a private placement to accredited investors in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder. We sold each share and warrant for an aggregate price of $1.60 per share pursuant to the terms of a subscription agreement executed and delivered by each investor on or before the closing of the private placement. Each warrant entitles the holder to purchase one-quarter share of our common stock at an exercise price of $2.50 per share for a period of five years from the date of the closing on their subscription. The form of private placement subscription agreement is filed as Exhibit 10.1 to this report. Certain Bacterin note holders also participated in the private placement by converting certain debt into shares of our common stock and warrants; however, the conversion of their debt was effected at a 10% discount to the price per share at which investors purchased securities in such private placement, being $1.44 per share, and the exercise price of the warrants they received also carried a 10% discount to the exercise price of the warrants received by new investors in such private placement, being $2.25 per share.

We received gross proceeds from the private placement of $7,508,329 from both purchases of our common stock and warrants and conversions by existing convertible note holders into such securities. Placement agents received an aggregate of $322,080 in cash fees in connection with the private placement and reimbursements of their out-of-pocket expenses. In addition, the placement agents received 67,686 shares of our common stock and warrants to purchase 251,625 shares of our common stock at an exercise price of $1.60 per share.

After the closing of the Reverse Merger and the private placement, we had outstanding 34,440,103 shares of common stock. In addition, we are obligated to issue 4,213,196 shares of common stock upon the exercise of stock options

held by former holders of Bacterin options, 4,879,075 shares of common stock upon the exercise of warrants held by former holders of Bacterin warrants, and 1,485,259 shares of common stock upon the exercise of warrants received by investors, including converting note holders and placement agents in our private placement.

Following the initial closing, the private placement will remain open until July 30, 2010, subject to the earlier termination at the election of us and the placement agent. During this time period, we may close on additional subscriptions and bridge note conversions under the private placement; provided, however, that the only persons who may participate in the private placement pursuant to any subsequent closings after the initial closing are (i) investors or note holders who participated in the initial closing, (ii) members of our management, and (iii) holders of our convertible bridge notes, regardless if they participated in the initial closing, so long as the amount raised in the private placement then meets the conditions for it to constitute a “Qualified Offering” under the terms of such notes.

Lock-Up Agreements

All shares of common stock issued in the Reverse Merger to the former holders of shares in Bacterin will be considered "restricted securities" under U.S. federal securities laws and may not be resold pursuant to Rule 144 for a period of one year after the filing of this report. Each of the former Bacterin stockholders who served as directors or executive officers of Bacterin as of the closing of the Reverse Merger or who have joined as members of our Board of Directors concurrently with the consummation of the Reverse Merger (collectively, "Management"), have executed one-year a lock-up agreement with us which provide that their shares, including any shares that are now owned or are subsequently acquired by them, will not be, directly or indirectly, publicly sold, subject to a contract for sale or otherwise transferred for a period of 12 months following the Reverse Merger and the private placement; provided, however, that (a) the restrictions set forth in such lock-up agreement will not apply to any securities acquired by Management in the private placement and (b) Guy Cook is permitted to hypothecate, pledge and grant a security interest in up to 5,000,000 of his existing shares received from us in connection with the Reverse Merger as collateral for borrowed funds used to acquire securities in the private placement and, if such collateral is executed against, shall be permitted to assign and transfer such shares to the secured party free of any restrictions set forth therein.

Registration Rights

We have agreed to use our best efforts to file a shelf registration statement on Form S-1 with the U.S. Securities and Exchange Commission ("SEC") covering the resale of all shares of common stock and all shares of common stock underlying the warrants issued in connection with the private placement (as well as up to 1,177,196 shares of our common stock held by certain of our stockholders at the time of the closing of the Reverse Merger and the shares underlying the placement agents' warrants) on or before the date which is 90 days after the closing date and to use our best efforts to have such shelf registration statement declared effective by the SEC as soon as practicable thereafter, but in any event not later than 150 days after the closing date (or 180 days after the closing date in the event of a full review of the registration statement by the SEC). We are also obligated to respond to any SEC comments within a stipulated period of time after receiving any such comments and to maintain the effectiveness of the shelf registration statement from the effective date through the earlier of (a) the date on which all the investors in the private placement have completed the sales or distribution described in the registration statement relating thereto or, if earlier, until all securities covered by the registration rights agreement may be sold by the investors in the private placement under Rule 144(b)(1), and (b) the date that is 18 months following the private placement closing date. In the event the shelf registration statement is not filed with, or declared effective by, the SEC on or prior to the dates set forth above, or we fail to timely satisfy our reporting requirements, each investor in the private placement will receive cash liquidated damages equal to 1% of the purchase price for the shares of common stock and warrants acquired in the private placement for each month (or portion thereof) that the registration statement is not so filed or effective, or has failed to timely file required reports, provided that the aggregate payment as a result of the registration default will in no event exceed 12% of the purchase price for the shares of common stock and warrants.

Item 2.01. Completion of Acquisition or Disposition of Assets.

Information concerning the principal terms of the Reverse Merger and our business is set forth below.

The Reverse Merger

On June 30, 2010, we entered into the Merger Agreement with Bacterin and closed the Reverse Merger. At such time, Bacterin became our wholly-owned subsidiary and we discontinued our prior business of distributing emergency preparedness kits.

Pursuant to the Merger Agreement, at closing, the former stockholders of Bacterin received an aggregate of 28,257,287 shares of our common stock, representing approximately 96% of our outstanding shares of common stock,

exclusive of shares of common stock sold in the concurrent private placement, or approximately 82% inclusive of such shares. Immediately prior to the closing of the exchange transaction, Bacterin had outstanding a total of approximately 56,514,573 shares of common stock, plus stock options to purchase 8,777,492 shares of common stock and warrants to purchase 10,164,739 shares of common stock. In exchange for the shares we issued to the former Bacterin stockholders, we acquired 100% of the outstanding shares of common stock of Bacterin. The consideration issued in the Reverse Merger was determined as a result of arm's-length negotiations between the parties.

Pursuant to the Merger Agreement, we also agreed to issue shares of our common stock upon the exercise of Bacterin's stock options and warrants in lieu of shares of Bacterin common stock previously issuable thereunder, and, based upon the ratio used to determine the number of shares issuable to Bacterin stockholders in connection with the Reverse Merger, we are obligated upon the exercise of those stock options and warrants to issue 4,213,196 shares and 4,879,075 shares of our common stock, respectively.

To the extent any of Bacterin's former stockholders elect to exercise any dissenters' rights in connection with the Reverse Merger, we will be obligated to purchase any such dissenter's shares of Bacterin common stock for "fair value" as determined immediately prior to the Reverse Merger, all in accordance with Nevada law. In addition, we will also be obligated to issue additional shares of our common stock to the non-dissenting Bacterin stockholders such that the non-dissenting stockholders would have held approximately 96% of our outstanding shares of common stock immediately upon consummation of the Reverse Merger, exclusive of any shares of our common stock issued in the private placement. Certain of Bacterin's former stockholders, who held approximately 743,940 shares of Bacterin common stock in the aggregate, provided proper notice to perfect their ability to exercise dissenters' rights (or 371,970 shares of our common stock that they will receive in the Reverse Merger if they ultimately elect not to exercise such rights).

Following the Reverse Merger, we succeeded to the biomaterials research, development, and commercialization business of Bacterin as our sole line of business, which will be conducted through our new, wholly-owned subsidiary, Bacterin International, Inc. See "Description of Business" below. Prior to the Reverse Merger, there were no material relationships between us and Bacterin, between Bacterin and our respective affiliates, directors or officers, or between any associates of Bacterin or our respective officers or directors. All of our pre-Reverse Merger liabilities were settled prior to closing.

Description of Our Company and Predecessor

We were incorporated in the State of Delaware on August 8, 2006. We were formed to design, assemble, market and sell emergency preparedness kits and supplies to school systems, municipalities, businesses and other customers. On November 12, 2009, we completed our initial public offering of 1,000,000 shares of common stock to the public pursuant to a registration statement on Form S-1 that we filed with the SEC and was declared effective on September 29, 2009.

Following the closing of the Reverse Merger with Bacterin, we have succeeded to the biomaterials research, development, and commercialization business of Bacterin and plan to continue this business as our sole line of business. Accordingly, we believe the past trading history of our common stock should not be viewed as relevant due to the change in our business. Pursuant to the Reverse Merger, effective June 30, 2010, we changed our corporate name to Bacterin International Holdings, Inc.

Description of Business

Unless the context otherwise requires, "we," "our," "us" and similar expressions used in this Description of Business section refer to Bacterin prior to the closing of the Reverse Merger on June 30, 2010, and Bacterin International Holdings, Inc., f/k/a K-Kitz, Inc., as successor to the business of Bacterin, following the closing of the Reverse Merger transaction.

Overview of Our Business

We develop, manufacture and market biologics products to domestic and international markets through our biologics division and are a leader in the field of biomaterials research, device development and commercialization. Our proprietary methods optimize the growth factors in human allografts to create the ideal stem cell scaffold and promote

bone and other tissue growth. These products are used in a variety of applications including enhancing fusion in spine surgery, relief of back pain with a facet joint stabilization, promotion of bone growth in foot and ankle surgery, promotion of skull healing following neurosurgery and cartilage regeneration in knee and other joint surgeries.

Our medical devices division develops medical devices intended for use in several diverse clinical areas including orthopedic, plastic, and cardiovascular surgery. Our background and expertise is in the research, testing, and development of coatings for medical devices, particularly antimicrobial-based coatings. Such coatings contain active agents and provide our products with several potential advantages over traditional medical devices. They offer a means of protecting the surface of a medical device from contamination by pathogenic organisms, thereby minimizing the potential for infection. Other coatings can serve as a reserve for local delivery of active agents, enhancing a variety of biological functions such as bone growth and pain management.

In addition to the manufacture and sales of coated medical devices, the medical devices division works with our biologics division to produce and distribute OsteoSelect® DBM putty, an osteoinductive product used by surgeons as a bone void filler in the extremities and pelvis. DBM putty is considered a combination product by regulatory agencies – both a tissue and a medical device.

The medical devices division also develops custom surgical instrument kits for use with allografts processed by our biologics division. These kits offer state-of-the-art instrumentation that is designed based upon the needs and inputs of surgeons who desire to use the most minimally invasive techniques. The instrumentation is intended to be an optimal delivery system for the proper placement of our proprietary allografts. Objectives of allograft use include pain relief, aid in the regeneration of tissue, and to provide a scaffold for bone fusion in spinal and sports medicine procedures.

The medical devices division actively develops intellectual property associated with our devices and coating platforms, for the purposes of protecting our Bacterin-branded devices and for use in alliance projects.

The manufacturing and operations of the biologics and medical devices divisions are organized separately while products from both are marketed through several channels including private label arrangements, independent distributors, joint development projects and our direct sales network, which we began to implement in the last half of 2009. The focus of our efforts and the use of the proceeds from prior financings and the private placement have been used, and will continue to be used, to, among other things, expand this direct sales network and our production capacity. To date, we have established 13 regions with a regional vice-president in charge of all activities within the region and have hired and trained 24 sales representatives. Our goal is to have four to five sales representatives in each region.

Our headquarters, laboratory and manufacturing facilities are located at 600 Cruiser Lane, Belgrade, Montana 59714. Our telephone number is (406) 388-0480 and our fax number is (406) 388-0422. We also maintain an office at 8310 S. Valley Highway, No. 300, Englewood, Colorado 80112, and have sales employees located across the United States.

We began operations in 1998 as a sole proprietorship founded by Guy Cook, our President and Chief Executive Officer, as a spinout of the internationally acclaimed Center for Biofilm Engineering at Montana State University (the "CBE"). Mr. Cook is an expert in microbial testing methods and has been recognized by the U.S. Food and Drug Administration ("FDA"), industry, and academia for his contributions to the development of bioactive coatings. This sole proprietorship was eventually incorporated as "Bacterin, Inc." in the state of Montana in January 2000 to further Mr. Cook's work. In March 2004, Bacterin, Inc.'s stockholders completed the terms of a share exchange agreement with a company called Oil & Gas Seekers, Inc., a Nevada corporation ("OGS"), which subsequently changed its name to "Bacterin International, Inc.", to effectively become a publicly-traded corporation. As a result of this transaction, the stockholders of Bacterin, Inc., became stockholders of us, and Bacterin, Inc., became our wholly-owned subsidiary. At the end of 2004, management concluded that this transaction was problematic and did not deliver the expected result. Based on this determination, we entered into an agreement in 2005 to amend the terms of the exchange transaction with the former majority stockholder of OGS. In May 2005, we merged Bacterin, Inc., up and into us.

Leveraging off the “state of the art” research and development activities ongoing at the CBE in biofilm technology, we began as a biomaterials testing laboratory and have systematically expanded our strategic vision towards the development of Bacterin-labeled medical devices. Our revenues were historically derived from testing services and milestone payments from collaborative product development agreements with various “blue chip” medical manufacturers. Today, however, we generate revenue from a number of revenue sources including the following: license fees and royalties from collaborative product development efforts with medical device manufacturers; sales from products developed and manufactured by us under our own label; products manufactured by us under private labels for other device distributing companies; and contract revenue from analytical testing and development services provided to medical device manufacturer clients, which tailor our coating process to the client’s specific product/medical application.

During 2008, we reached an important transition point in our history. Most of our business endeavors prior to that time had been devoted to developing our products with revenue generated from a variety of limited sources, including testing, government grants and unsubstantial product sales. In 2008, however, revenue from product sales either under our name or "private label" became our primary source of revenue.

On June 18, 2010, we were contacted by a scientific advisor of a major participant in the medical device industry to inquire about what a potential buy-out price might be for us. This individual has recommended that the industry participant should consider acquiring us. In response to his inquiry, we informed him that we believed $600 million was an appropriate buy-out price. There have been no further discussions since such time. This offer and our response does not suggest, and no one should infer therefrom, that we are being or will be acquired, or that $600 million is a reasonable valuation of our company.

Industry and Market Overview

The orthopedic biomaterials market consists of materials that are organic, inorganic or synthetic in nature. These materials are implanted or applied in or near the indicated bone to facilitate healing, encourage bone tissue augmentation, compensate in areas where bone tissue is depleted and restore structure to allow for repair. Orthopedic biomaterials are capable of producing specific biological action or regenerative responses that are beyond what is observed in normal healing. These materials are often used as substitutes to autograft materials, which are taken from a harvest site in the patient to patch or repair the wounded or unhealthy site.

Bone is a biologically active tissue and may or may not regenerate depending on the condition of the patient. The damage may be significant enough that a scaffold to help regenerate the surgical site may be necessary. In 2009, the orthopedic biomaterials market was valued at almost $3.5 billion. This market is expected to grow at a CAGR of 8.9% by 2016. (Idata Research Inc. 2010, U.S. Market for Orthopedic Biomaterials).

Products and Services

We have developed and currently manufacture and sell several human tissue-based products, primarily allografts, into the medical marketplace through our biologics division. In addition, we also manufacture and sell, directly under our own name, indirectly through distributors and pursuant to private label arrangements, various coating and surgical drain products through our medical devices division.

Biologics Division

Our biologics products include OsteoSponge®, OsteoSponge® SC, OsteoWrap®, OsteoLock®, BacFast® and OsteoSelect®, as well as certain other allograft products which are briefly described below:

- OsteoSponge® is a form of demineralized bone matrix made from 100% human bone. Derived from trabecular (cancellous) bone, OsteoSponge® provides a natural scaffold for cellular in-growth and exposes bone-forming proteins to the healing environment. The malleable properties of OsteoSponge® enable it to conform to, and fill, most defects. Upon compressing the allograft, OsteoSponge® springs back to completely fill the void. Its unique mechanical and biological properties make OsteoSponge® an ideal bone graft for use in various orthopedic practices including spine, neurology, cranial/maxillofacial, trauma, plastic/reconstruction and general procedures where new bone growth is needed.

- OsteoSponge® SC is a form of OsteoSponge® designed to be used in joint surgery. Bacterin has shown, in goat studies, the ability to re-generate cartilage in joint repair and believes that this product has the potential to significantly change the standard of care in human joint surgery. We have received permission from the FDA to market this product as a subchondral bone void filler and are currently marketing it as such. Surgeons are using the

product and we are beginning trials to establish the ability to market it as a cartilage re-generation scaffold. These trials are likely to take two years and we will likely publish preliminary results of the study at six months and one year. There can be no assurance that these trials will be successful or lead to any FDA action. Part of the proceeds of the private placement will be used to fund this clinical trial.

- OsteoWrap® is 100% human cortical bone demineralized through a proprietary process to make the graft flexible while maintaining allograft integrity. This product has various applications in orthopedic, neurological, trauma, oral/maxillofacial and reconstructive procedures. OsteoWrap® can wrap around non-union fractures to assist with fusion, can act as a biologic plate or can be used in conjunction with a hardware plate system. Additionally, this product provides the surgeon with superior handling characteristics as the allograft can be easily sized using surgical scissors or a scalpel, and will withhold sutures or staples for fixation.

- OsteoLock® and BacFast® are facet stabilization dowels made from human bone. The shape of our facet stabilization dowel is engineered to maximize osteoconductivity and surface area contact, as well as provide stability to prevent migration from the surgical site. BacFast® HD, having the same design as OsteoLock®, is optimized through our proprietary demineralization technology. This technology increases the surface area of the outer collagen matrix of the graft while exposing native bone morphogenic proteins (BMPs) and growth factors. Because of the hyper-demineralization technology, BacFast® HD has osteoinductive properties, as well as being osteoconductive. OsteoLock® and BacFast® can be used to augment spinal procedures, or as a stand-alone procedure for mild spinal conditions. While this product is currently in production and use, Bacterin is initiating clinical studies to further support its effectiveness and some of the proceeds of the private placement will be used to fund these clinical trials. There can be no assurance of the success of these trials.

- OsteoSelect® DBM putty is engineered with the surgeon in mind. With outstanding handling characteristics, OsteoSelect® can be easily molded into any shape and compressed into bony voids. Taking the design a step further, Bacterin has validated a low-dose, low-temperature gamma sterilization process to provide maximum osteoinductive potential while still affording device level sterility. Every production batch of OsteoSelect® is tested for its bone growth characteristics allowing us to make that unique marketing claim.

In addition, we make and sell (i) sports allografts which are processed specifically for anterior and posterior cruciate ligament repairs, anterior cruciate ligament reconstruction and meniscal repair, (ii) milled allografts which are comprised of cortical bone milled to desired shapes and dimensions, also called milled spinal allografts, and (iii) traditional allografts for multi-disciplinary applications including orthopedics, neurology, podiatry, oral/maxillofacial, genitourinary and plastic/reconstructive.

We are hoping to be able to expand our product definition for certain of our products to claim cartilage regeneration capability. Over the past few months, approximately 15 patients thus far have undergone knee, foot or ankle surgery for the purposes of the trial to make such claims. We plan to have 200 patients in the trial by year end. Thus far, the first patients were operated on 6 months ago and, in all cases, no adverse events were reported. We are 5 to 7 months away from reaching an anecdotal threshold at which point we hope that our findings can be presented to the sports medicine and orthopedic repair community.

Medical Device Products

Our medical devices division researches, tests and develops coatings for medical devices, particularly antimicrobial-based coatings. Such coatings contain active agents and provide our products with several potential advantages over traditional medical devices. They offer a means of protecting the surface of a medical device from contamination by pathogenic organisms, thereby minimizing the potential for infection. Other coatings can serve as a reserve for local delivery of active agents, enhancing a variety of biological functions such as bone growth and pain management. This division produces and distributes OsteoSelect® DBM putty, an osteoinductive product used by surgeons as a bone void filler in the extremities and pelvis. DBM putty is considered a combination product by regulatory agencies – both a tissue and a medical device.

Our medical devices division also develops custom surgical instrument kits for use with allografts processed by our biologics division. These kits offer state-of-the-art instrumentation that is designed based upon the needs and inputs of

surgeons who desire to use the most minimally invasive techniques. The instrumentation is intended to be an optimal delivery system for the proper placement of our proprietary allografts. Objectives of allograft use include pain relief, aid in the regeneration of tissue, and to provide a scaffold for bone fusion in spinal and sports medicine procedures. We currently sell a surgical drain series called Via™, which is used to drain exudate from a surgical site. Building upon the Via™ platform, Bacterin plans on releasing a second generation product called the Elutia® surgical drains which will be performance enhanced via an antimicrobial coating to help reduce the incidence of surgical site infection.

Our wound drain product is gaining attention at the VA Hospitals. At the end of last month, we received notice that the Brook Army Medical Hospital in Texas, a level 1 trauma facility, will begin using our wound drain product system wide. This hospital currently reports that over fifty percent (50%) of post operative infections occur due to an uncoated wound drain that it is currently using. We are hopeful that over the next several months, our wound drain product will be distributed throughout the VA Hospital system. Our wound drain products sell into hospitals for $40 and cost us approximately $6 to produce. We believe that the ultimate size of the market for wound drains is $80 million per year. We continue to build our pipeline of products for antimicrobial coated medical devices with one approval expected in Q3 2010, and another by Q2 2011. These product revenues are not reflected in our current sales forecasts.

Technology and Intellectual Property

Patents

Our patent efforts have been, and will continue to be, primarily focused in two key areas:

- The delivery of bioactive agents impregnated into or onto metals, polymers or tissues which, when activated by bodily fluids, release the agent into the surrounding environment; and

- The development of innovative and novel, engineered tissue implants or constructs which employ acellular tissue and processes, and enhanced demineralized bone matrix products.

The following table summarizes our current patent portfolio, including patents covering technology licensed by us for use or inclusion in certain of our products:

Title	Business Purpose	First Inventor	Serial or Patent Number	Date Filed or Granted	Status
1. Pending U.S. Applications					
MEDICAL DEVICE INCLUDING A BIOACTIVE IN A NON-IONIC AND AN IONIC FORM AND METHODS OF PREPARATION THEREOF	This application arose out of a now defunct project. We retained rights as the technology may prove useful in the future. The patent describes the modification of elution profiles via active agent equilibration; it is potentially applicable to many coated products.	Mike Johnson	11/864,360	9/28/2007	Undergoing further examination
ANTIMICROBIAL COATING FOR INHIBITION OF BACTERIAL ADHESION AND BIOFILM FORMATION	This application relates to the coating used for the Elutia® wound drain and for the Bard BioBloc coating on their HemoStar hemodialysis catheter. The efficacy period can be varied according to the desired outcome; the coating has shown in vitro efficacy for between 7 and	Guy Cook	10/891,885	7/15/2004	Non-final Office Action mailed 9/15/09; response submitted 12/15/09

	21 days.				
PROCESS FOR DEMINERALIZATION OF BONE MATRIX WITH PRESERVATION OF NATURAL GROWTH FACTORS	This application is intended to protect OsteoSponge®, a core product produced by our Biologics division. OsteoSponge® is a novel form of demineralized bone matrix which provides a natural scaffold for cellular growth and exposes bone growth inducing proteins to the healing environment.	Nancy J. Shelby	12/130,384	5/30/2008	First examination: November 2010 (estimated)

2. Pending Foreign Applications