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)	(IRS Employer Identification No.)

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)

Copies to:
Greenberg Traurig, LLP
The Tabor Center
1200 Seventeenth Street, Suite 2400
Denver, Colorado 80123
Tel.: (303) 572-6586
Fax: (303) 572-6540
Attn: C. Ben Huber, Esq.

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

TABLE OF CONTENTS

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.

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 21 days.	Guy Cook	10/891,885	7/15/2004	Non-final Office Action mailed 9/15/09; response submitted 12/15/09
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					
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 and is potentially applicable to many coated products.	Mike Johnson	PCT/US2007/079924	9/28/2007	Preliminary Report on Patentability generated 3/13/09

Title	Business Purpose	First Inventor	Serial or Patent Number	Date Filed or Granted	Status
2. Pending Foreign Applications					
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 21 days.	Guy Cook	PCT/US2005/015162	4/28/2005	Entered National Phase in: Europe, Australia, Canada, Japan
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	PCT/US2008/006942	6/2/2008	Entered national Phase in: Europe, Canada, Mexico, Korea
AN ELASTOMERIC ARTICLE INCORPORATED WITH A BROAD SPECTRUM ANTIMICROBIAL	This application was generated as a means of protecting the technology used for a forthcoming product. We have observed long term (over 30 days) in vitro efficacy with this technology.	Benjamin P. Luchsinger	PCT/US2009/005103	9/11/2009	Awaiting International Search Report (this application will enter the US through PCT)
3. In-Licensed Intellectual Property					
SWOLLEN DEMINERALIZED BONE PARTICLES, FLOWABLE OSTEOGENIC COMPOSITION CONTAINING SAME AND USE OF THE COMPOSITION IN THE REPAIR OF OSSEOUS DEFECTS	This patent protects OsteoSelect®, Bacterin's DBM putty. OsteoSelect® has exceptional handling characteristics and can easily be molded into any shape and compressed into bony voids. Bacterin employs a low-dose, low-temperature sterilization process to provide maximum osteoinductive potential while maintaining device-level sterility.	Simon Bogdansky	5,284,655	2/8/1994	Granted
FLOWABLE DEMINERALIZED BONE PWDER COMPOSITION AND ITS USE IN BONE REPAIR	This patent protects OsteoSelect®, Bacterin's DBM putty. OsteoSelect® has exceptional handling characteristics and can easily be molded into any shape and compressed into bony voids. Bacterin employs a low-dose, low-temperature sterilization process to provide maximum osteoinductive potential while maintaining device-level sterility.	Robert K. O'Leary	5,290,558	3/1/1994	Granted

Management believes our patent filings and patent position will facilitate growth and enhance our proprietary core competencies, enabling us to protect and expand revenue growth and stockholder value in the future. We expect that additional patent applications will be filed and prosecuted as inventions are discovered, technological improvements and processes are developed and specific applications are identified. The status of individual patents and patent jurisdiction is maintained in our internal records. We anticipate, however, that there may be instances in which we enter into collaborative research and development agreements with medical device companies under such terms that the medical device company may or will retain a right to make future patent filings arising from such cooperative development agreement. In such instances, we will attempt to protect our overall patent use rights by agreements which limit the right of the collaborative party to an exclusive right only as it pertains to the field of use, as defined by the applicable project's scope of work. In this manner, we anticipate that we will receive future benefit and use of such intellectual property outside the field of use, as defined by any given scope of work. There can be no assurance that we will be able to obtain final approval of any patents.

Trademarks

We believe in the superiority of our technology and products. As a result, we have invested in the development and protection of the names of our products in order to drive consumer awareness and loyalty to the brand. To protect this investment, we have registered, and continue to seek registration, of these trademarks and continuously monitor and aggressively pursue users of names and marks that potentially infringe upon our registered trademarks. We currently own registered trademarks to the following brand names of certain of our products: OsteoSponge®, OsteoWrap®, OsteoLock®, BacFast®, OsteoSelect®, and Elutia®. We recently sued Allosource for infringing our OsteoSponge® trademark by marketing their competitive allograft product under the name "AlloSponge." See "Description of Business - Legal Proceedings."

Trade Secrets

To safeguard our proprietary knowledge and technology, we rely heavily upon trade secret protection and non-disclosure/confidentiality agreements with employees, consultants and third party collaboration partners with access to our confidential information. There can be no assurance, however, that these measures will adequately protect against the unauthorized disclosure or use of confidential information, or that third parties will not be able to independently develop similar technology. Additionally, there can be no assurance that any agreements concerning confidentiality and non-disclosure will not be breached, or if breached, that we will have an adequate remedy to protect us against losses. Although we believe our proprietary technology has value, because of rapid technological changes in the medical industry, we also believe that proprietary protection is of less significance than factors such as the intrinsic knowledge and experience of our management, advisory board, consultants and personnel and their ability to identify unmet market needs and to create, invent, develop and market innovative and differentiated new medical devices.

Donor Procurement

We implemented our biologics division, among other reasons, to secure and process our own tissue, which posed initial challenges and associated operational disadvantages. At the time we embarked on this plan, we lacked donor sources, manufacturing capabilities, and distribution channels. We also lacked the vertical integration of an in-house tissue processing laboratory and were thus constrained by sub-contracting tissue processing to outside processors. These same sub-contractors are essentially suppliers of their own tissue to the marketplace and are hence ultimately our competitors. We have since successfully secured rights of first refusal of human tissue with multiple recovery agencies. Concurrent with this initiative, we also sought to secure future allograft production capability by constructing our own tissue processing facility. We have now begun efforts to expand our network for donor tissue in anticipation of increased production and believe that this effort, along with our current network of procurement agencies, will be sufficient to supply enough donors to meet the forecasted revenue volume through 2011 and beyond. We expect to be able to continue to build the network for donor tissue as the needs arise.

Sales and Marketing

We are committed to building our direct sales channel into the primary method of distributing our products. We have promoted three regional vice presidents to the role of executive vice-president to lead the North, South and West thirds of the United States and established 13 regions with a regional vice president in charge of all activities within the region. We have hired and trained 24 sales representatives toward a near term goal of establishing four to five sales representatives in each region. While we expect that the cost of this initiative will likely result in a net loss from operations in 2010, it is our expectation that this investment in the direct sales network will lead to higher revenue in 2010 and beyond, as well as profitability in 2011 and beyond. No assurance can be given that these efforts will be successful.

After 7 months of testing by Broadlane, Inc., the largest operator of healthcare supply chains in the United States, and its clients, we were accepted in May 2010 as an authorized vendor in its group purchasing program, which enables Broadlane’s customers to purchase products from us. Broadlane manages approximately $10 billion in contract volume with over 6,000 medical facilities and 33,000 physician practices in its network. In June 2010, Broadlane issued a newsletter to its entire network showcasing and introducing Bacterin to all of its hospitals, independent delivery networks, ambulatory care and surgery centers. As a result of this contract, our sales force can now proceed to sell our products to this expansive network of doctors. During the first month of our contract with Broadlane, we anticipate that five percent (5%) of our revenues will be attributed to new sales out of the Broadlane network. We have already received our first order from Tenet Hospitals, which runs over 40 hospitals, and Advocates in Illinois, which manages approximately 25 hospitals. We expect to have our best month ever in June 2010 and our best quarter ever in the second quarter of 2010.

We also market our products through “private label” agreements whereby we package our products under another company’s name and they are responsible for the sale and distribution of the product. Additionally, we market our products through independent distributors who then sell to their customer base. In both of these channels, we provide our customer with a discount off our list price. We have experienced a decline in revenue from these channels and expect that these channels will continue to represent a smaller portion of our overall revenue as our direct distribution channel grows.

Within the medical devices division, our marketing strategy is to develop product development alliances with multinational medical device companies at the same time as we develop our own new products in fields or applications outside of the rights of our collaborative partners. We have implemented this strategy and are pursuing contract opportunities with other medical device companies.

We also have a physician compensation program that compensates physicians as employees for referring our products to other surgeons and medical care providers with whom they do not have a disqualifying "financial relationship" under applicable laws. Physician employees, at our direction, refer us to other physicians and are paid a commission on all revenue generated by the referred physicians' use of our products. Although we have been advised by counsel that this program complies with the Stark laws and applicable anti-kickback regulations, there can be no assurance that there will not be additional regulations adopted which could have an impact on this program. We have also established procedures that are designed to prevent abuses involving these physician employees and others with whom they have financial relationships.

Summary Financial Targets

The following table sets forth certain of our summary financial targets for the years ending December 31, 2010 through December 31, 2012, which give pro forma effect to our receipt of gross proceeds of $4,026,000 from the private placement and the conversion of $3,482,329 in outstanding principal owed under certain convertible bridge notes into shares of our common stock, as described herein. These targets are based on our current business plan and incorporate estimates and assumptions regarding circumstances and events that have not yet taken place and which are subject to various uncertainties inherent in formulating these targets. Although management believes that the assumptions used to create these targets are reasonable, they are necessarily speculative, and we cannot guarantee that these targets will be met. See "Risk Factors" for a discussion of risks and uncertainties that could have a material impact on our ability to achieve the targeted results set forth below. Actual results will likely vary significantly from those set forth in the table and variations may be material and adverse.

	2010	2011	2012
Revenue	$ 20,550,729	$ 67,391,153	$ 124,197,777
Cost of Goods Sold	4,160,411	13,651,082	25,036,930
Gross Profit	16,390,317	53,740,071	99,160,847
Expenses	21,702,013	39,845,754	56,145,501
Net Income Before Tax	(5,311,696)	13,894,317	43,015,346
Income Taxes	-	-	(17,206,138)
Net Income	$ (5,311,696)	$ 13,894,317	$ 25,809,208
Earnings per Share	$ (0.13)	$ 0.31	$ 0.57
EBITDA	(2,686,448)	15,203,804	44,923,934
EBITDA per share	$ 0.06	$ 0.34	$ 1.00
Fully Diluted Shares	41,373,020	45,017,632	45,017,632

Growth Strategy

After multiple years of product development, we believe that our technology has been largely market tested, and since 2009, we have been transitioning our focus to appropriately market and distribute our products. We have spent months preparing the business to capitalize on our core markets, as well as new market opportunities. In particular, we have diversified our supply of donor tissue, expanded our production capabilities, developed the infrastructure of what we believe will grow into a formidable sales force, refined the message to our market and started gathering proof points on how to scale our revenue in these markets.

We began implementing a direct sales network in July 2009. As of December 31, 2009, we had 7 regional vice presidents and 21 sales representatives. Currently, we have 3 executive vice presidents, 7 regional vice presidents, and 24 sales representatives. Our goal is to grow this sales force to 3 executive vice presidents, 13-15 regional vice presidents, and 52 sales representatives. We strive to hire sales representatives with deep industry experience and pre-existing contacts. In addition, we plan to utilize small independent sales representatives with entrenched physician relationships. We expect revenue to move towards 50% by employed sales representatives and 50% by independent sales representatives.

We are working on developing and implementing a high-level, national effort to present our products as a value proposition to hospital chains, insurers and other purchasing organizations. To this end, we have already entered into agreements with Banner Hospitals, the Hospital for Special Surgery, Broadlane (a purchasing organization for 1,200 hospitals and other medical facilities), and Access Mediquip (a national purchasing organization for ambulatory surgery centers). We anticipate that these agreements will pave the way for our sales representatives to call on physicians, as the hospital process will already be approved.

Competition

Because the orthopedic biomaterials market overlaps with a number of medical fields – spine, trauma, joint reconstruction, sports medicine, pharmaceuticals and biotechnology – fragmentation is to be expected. However, there is one clear leader in the market: Medtronic held 27.1% of the market in 2009. Medtronic's lead is based on the strength of their Infuse® growth factor product. However, the growth potential of this product has been affected by some negative media attention regarding off-label usage and adverse events with specific indications.

Beyond Medtronic, the orthopedic biomaterials market is comprised of a great number of players, each offering a multitude of products. It is expected that several new products will emerge over the coming years. These assumptions are based on the advance of technology and the clinical promise of regenerative therapies such as stem cells and bone marrow concentration.

Specific competitors in the orthopedic biomaterials markets are: Medtronic , DePuy, Synthes, Arthrex, Smith & Nephew, Nuvasive, OrthoFix, Biomet, Osteotech, Orthovita, MTF, Stryker, RTI, AlloSource, Lifenet Health, Integra, ConMed/Linvatec, Wright, Exactech, ArthroCare, Harvest, and Arteriocyte. (Idata Research Inc. 2010, U.S. Market for Orthopedic Biomaterials).

Government Regulation

We produce human allografts that are regulated and comply with all the criteria under both 361 and 351 of the Public Health Service Act. Compliance is determined by the FDA during the inspection of our facility. To date, we have successfully completed all of our FDA inspections. We are registered with the FDA as a manufacturer of human cellular and tissue products (HCT/Ps) as well as medical devices. We are an accredited member of the American Association of Tissue Banks in good standing. We meet all licensing requirements for the distribution of HCT/Ps in the States of Florida, California, Maryland and New York. We cannot predict the impact of future regulations on either us or our customers.

Human Tissue

Our human tissue products, which are sold through our biologics division, have been regulated by the FDA since 1993. In May 2005, three new, comprehensive regulations went into effect that address manufacturing activities associated with HCT/Ps. The first requires that companies that produce and distribute HCT/Ps register with the FDA. The second provides criteria that must be met for donors to be eligible to donate tissues and is referred to as the "Donor Eligibility" rule. The third rule governs the processing and distribution of the tissues and is often referred to as the "Current Good Tissue Practices" rule. Together, they are designed to ensure that sound, high quality practices are followed to reduce the risk of tissue contamination and of communicable disease transmission to recipients. Our HCT/P products such as OsteoSponge® are regulated by the Center for Biologics Evaluation and Research. Our OsteoSponge® and OsteoWrap® products are regulated as a HCT/P as determined by the Tissue Reference Group and regulated solely under Section 361 of the Public Health Service Act and 21 CFR Part 1271.

Medical Devices

Because our medical devices incorporate coating technologies, they are subject to regulation by the FDA. These medical devices require the approval of the FDA prior to sale within the United States. The manufacturers and licensees who use our coating technology in their medical devices will have the burden of demonstrating the safety and efficacy of the medical devices, a burden which we will assist such manufacturers and licensees in demonstrating to the extent our coating technologies are at issue. Sales of medical devices using our coating technology in the European Union will require the CE Mark certification and sales of such medical devices in Canada will require approval from the Medical Device Bureau of Canada.

Within the United States, the FDA process requires that a pre-market notification (a "510(k) Submission") be made to the FDA to demonstrate that the medical device is safe and effective and is substantially equivalent to a legally marketed device that is not subject to pre-market approval. Applicants must compare the device to one or more similar devices that are commercially available in the U.S. (known as the "predicate device"), and make and support a claim of substantial equivalency to such predicate device. Support for such claims must include descriptive data and, when necessary, performance data. In some cases, data from clinical trials must also be submitted in support of a 510(k) Submission. The FDA must then issue an order finding substantial equivalency before the devices may be commercially distributed in the U.S. This process can take anywhere from three months to two or three years, and can be extremely expensive. The Center for Devices and Radiological Health regulates medical devices, including our OsteoSelect® DBM putty.

ISO Certification

In March 2010, we announced that we had received certification from the International Organization for Standardization ("ISO") for fulfilling the requirements of ISO 13485:2003. The Geneva based International Organization for Standardization is the world's largest developer and publisher of International Standards. ISO 13485:2003 specifies requirements for a quality management system. To obtain ISO 13485:2003 certification, an organization must demonstrate its ability to provide medical devices that consistently meet applicable customer and regulatory requirements. The primary objective of ISO 13485:2003 is to facilitate harmonized medical device regulatory requirements for quality management systems. All requirements of ISO 13485:2003 are specific to organizations providing medical devices, regardless of the type or size of the organization. The certification assures our customers and partners of our commitment to quality, and in the quality of our innovative products and processes. Additionally, we believe that the ISO 13485:2003 certification offers new markets and business opportunities for our products in the global marketplace.

Employees

As of June 30, 2010, we had 80 full-time employees, of whom 31 were in product development, 38 in sales and marketing, and 11 in administrative. In addition, we make use of a varying number of temporary employees and outsourced services to manage normal business cycles. None of these employees is covered by a collective bargaining agreement and our management considers relations with employees and services partners to be good.

Facilities

We lease approximately 16,000 square feet in a building located at 600 Cruiser Lane, Belgrade, Montana 59714. In addition to our corporate headquarters, this space also includes a clean room, fully equipped diagnostics laboratory, microbiology laboratory and testing laboratory. We lease the building under a ten-year operating lease which runs through October 2013 and has a monthly lease payment of $10,000. The lease also has a ten-year renewal option.

In November 2007, we purchased a 14,000 square foot facility at 664 Cruiser Lane, Belgrade, Montana 59714. This building is an FDA registered facility with 5 "Class 1,000" clean rooms and currently houses our medical device coatings operations. The validated manufacturing areas and laboratory facilities located in this facility provide processing and testing space to manufacture medical devices pursuant to FDA, GMP regulations, and ISO 13485:2003. We expect this facility to meet all of our regulatory requirements for the manufacture of future Bacterin-label products, including our surgical drains (Via™ and Elutia®), as well as production requirements for coated medical devices from our medical device partners. The facility is registered with the FDA for device design, device manufacture, and contract manufacture, as well as for screening, testing, storing, and distributing biological tissues.

We also lease office space in Englewood, Colorado, where certain of our administrative and sales functions are housed.

Legal Proceedings

In November 2009, we were served a complaint in connection with the following court action filed in Utah state court: *Yanaki and Activatek v. Cook and Bacterin International, Inc.*, case number 090912772. This action involves the plaintiff's attempt to sell shares of our common stock to a third party in a private sale and claims, as its primary allegation, tortuous interference with the sales contract. We believe this lawsuit is without merit and we are conducting a vigorous defense.

We initiated an arbitration proceeding in Bozeman, Montana to collect a large account receivable from OrthoPro, LLC under a Private Label Distribution Agreement. OrthoPro has made a counterclaim in that arbitration which, in our judgment, is without merit. We plan to vigorously pursue the recovery of all amounts owed and to defend against the counterclaim.

As a result of our policy to aggressively defend our intellectual property rights, we recently filed and served a complaint in a lawsuit styled *Bacterin International, Inc. v. Allosource* in the Federal District Court for the District of Colorado. Our complaint is based on Allosource's infringement of our OsteoSponge® trademark through Allosource's use of the name "AlloSponge." Allosource has generally denied all allegations and has filed a counterclaim to cancel the federal registration for OsteoSponge®. We believe the counterclaim has no merit and we intend to aggressively pursue our infringement claims.

We have recently received notice from legal counsel for minSURG International, Inc. ("minSURG") of minSURG's recently issued U.S. Patent No. 7,708,761, entitled "Spinal Plug for a Minimally Invasive Facet Joint Fusion System" (the "minSURG Patent") alleging infringement or inducement of infringement by us of the minSURG Patent. We are early into the process of evaluating the validity of the minSURG Patent and its relevance to our dowel products and their use in minimally invasive facet surgeries. Regardless of the outcome of this analysis, we do not anticipate this notice to have a material impact on our overall sales or operating results.

Risk Factors

Our business involves significant risks and uncertainties, many of which are beyond our control, and any investment in our common stock involves a high degree of risk. Discussed below are many of the material risk factors faced by us that may have an impact on our future results.

Risks Related to Our Business and Our Industry

Our products are relatively new and long-term results are incomplete, thus, the future of our business still remains uncertain.

Many of our current products are relatively new and have been in use for a relatively short period of time. See "Description of Business - Products and Services." The results of the use of these products will be monitored for many years. While preliminary results have been good, there can be no assurance that some of these products will perform well over longer periods of time. Future product issues may expose us to legal actions, removal of regulatory approvals or products being pulled from use. If we become subject to product or general liability or errors and omissions claims, they could be time-consuming and costly. The U.S. Food and Drug Administration (the "FDA") and foreign regulatory authorities may impose significant restrictions on the use or marketing of our products or impose additional requirements. Later discovery of previously unknown problems with any of these products or their manufacture may result in further restrictions, including withdrawal of the product from the market. Any such restrictions or withdrawals could materially affect our ability to execute our business plan. In addition, governmental authorities could seize our inventory of products, or force us to recall any product already in the market if we fail to comply with FDA or other governmental regulations.

Many competitive products exist and more will be developed, and we may not be able to successfully compete because we are smaller and have fewer financial resources.

Our business is in a very competitive and evolving field. Rapid new developments in this field have occurred over the past few years, and are expected to continue to occur. Other companies already have competing products available or about to be available or may develop products to compete with ours. Many of these products may have short regulatory timeframes and our competitors, many with more substantial development resources, may be able to develop competing products that are equal to or better than ours. This may make our products obsolete or undesirable by comparison and reduce our revenue. Our success will depend, in large part, on our ability to maintain a competitive position concerning our intellectual property, and to develop new technologies and new applications for our technologies. Many of our competitors have substantially greater financial and technical resources, as well as greater production and marketing capabilities, than us.

The medical community and the general public may perceive synthetic materials and growth factors as safer, which could have a material adverse effect on our business.

Members of the medical community and the general public may perceive synthetic materials and growth factors as safer than allograft-based bone tissue products. Our products may be incapable of competing successfully with synthetic bone graft substitutes and growth factors developed and commercialized by others, which could have a material adverse effect on our business, financial condition and results of operations.

We are highly dependent on the availability of human donors; any disruptions could cause our customers to seek alternative providers or technologies.

We are highly dependent on our ability to obtain donor cadavers as the raw material for many of our products. The availability of acceptable donors is relatively limited and we compete with many other companies for this limited availability. The availability of donors is also impacted by regulatory changes, general public opinion of the donor process and our reputation for our handling of the donor process. In addition, due to seasonal changes in the mortality rates, some scarce tissues are at times in short supply. Any disruption in the supply of this crucial raw material could have significant consequences for our revenue, operating results and continued operations. See “Description of Business - Donor Procurement.”

We will need to continue to innovate and develop new products to be desirable to our customers.

The markets for our products and services are characterized by rapid technological change, frequent new introductions, changes in customers’ demands and evolving industry standards. Accordingly, we will need to continue to innovate and develop additional products. These efforts can be costly, subject to long development and regulatory delays and may not result in products approved for sale. These costs may hurt operating results and may require additional capital. If additional capital is not available, we may be forced to curtail development activities. In addition, any failure on our behalf to react to changing market conditions could create an opportunity for other market participants to capture a critical share of the market within a short period of time.

Our success will depend on our ability to engage and retain qualified technical personnel who are difficult to attract.

Our success will depend on our ability to attract and retain qualified technical personnel to assist in research and development, testing, product implementation, low-scale production and technical support. Competition for qualified technical personnel is intense, and we may encounter difficulty in engaging and retaining qualified personnel needed to implement our growth plan. The demand for such personnel is high and the supply of qualified technical personnel is limited. A significant increase in the wages paid by competing employers could result in a reduction of our technical work force and increases in the wage rates that we must pay or both. If either of these events were to occur, our cost structure could increase and our growth potential could be impaired.

Loss of key members of our management who we need to succeed could adversely affect our business.

We are highly dependent on the services of Guy Cook, our President and Chief Executive Officer, and other key members of our management team and the loss of his or any of their services could have an adverse effect on our future operations. See “Management.” We do not currently maintain a key-man life insurance policy insuring the life of Mr. Cook or any other member of our management team.

We are highly dependent on the continued availability of our facilities and would be harmed if they were unavailable for any prolonged period of time.

Any failure in the physical infrastructure of our facilities or services could lead to significant costs and disruptions that could reduce our revenues and harm our business reputation and financial results. We are highly reliant on our Belgrade, Montana facilities. See "Description of Business - Facilities." Any natural or man-made event that impacts our ability to utilize these facilities could have a significant impact on our operating results, reputation and ability to continue operations. The regulatory process for approval of facilities is time-consuming and our ability to rebuild facilities would take a considerable amount of time and expense and cause a significant disruption in service to our customers. Further, the FDA or some other regulatory agency could identify deficiencies in future inspections of our facilities or our supplies that could disrupt our business, reducing profitability. We carry business interruption insurance to help in these instances, but it may not cover all costs or our standing in the market.

We will be required to invest in facilities and equipment on a continuing basis, which will put pressure on us to finance these investments.

We have invested, and intend to continue to invest, in facilities and state-of-the-art equipment in order to increase, expand or update our capabilities and facilities. See "Description of Business - Facilities." Changes in technology or sales growth beyond currently established production capabilities, which we anticipate, will require further investment. However, there can be no assurance that we will generate sufficient funds from operations to maintain our existing facilities and equipment or to finance any required capital investments or that other sources of funding will be available. Additionally, there can be no guarantee that any future expansion will not negatively affect earnings.

Future revenue will depend on our ability to develop new sales channels and there can be no assurance that these efforts will result in significant sales.

We are in the process of developing sales channels for our products but there can be no assurance that these channels can be developed or that we will be successful in selling our products. We currently sell our products through direct sales by our employees, through distributor relationships and through "private label" arrangements with other companies. We are engaging in a major initiative to build and further expand our direct sales force. See "Description of Business - Sales and Marketing." This effort will have significant costs that will be incurred prior to the generation of revenue sufficient to cover these costs. The costs incurred for these efforts may impact our operating results and there can be no assurance of their effectiveness. Many of our competitors have well-developed sales channels and it may be difficult for us to break through these competitors to take market share. If we are unable to develop these sales channels, we may not be able to grow revenue or maintain our current level of revenue generation.

Our physician compensation program could be adversely impacted by new regulation, which could impact our current competitive strengths.

Our physician compensation program compensates physicians as employees for referring our products to other surgeons and medical care providers with whom they do not have a disqualifying "financial relationship" under applicable laws. Physician employees, at our direction, refer us to other physicians and are paid a commission on all revenue generated by the referred physicians' use of our products. This program was vetted by counsel for compliance with the Stark laws and anti-kickback regulations. However, there can be no assurance that there will not be additional regulations adopted which could have an impact on this program. We have also established procedures that are designed to prevent abuses involving these physician employees and others with whom they have financial relationships.

There may be fluctuations in our operating results, which will impact our stock price.

Significant annual and quarterly fluctuations in our results of operations may be caused by, among other factors, our volume of revenues, the timing of new product or service announcements, releases by us and our competitors in the marketplace of new products or services, and general economic conditions. There can be no assurance that the level of revenues and profits, if any, achieved by us in any particular fiscal period will not be significantly lower than in other comparable fiscal periods. Our expense levels are based, in part, on our expectations as to future revenues. As a result, if future revenues are below expectations, net income or loss may be disproportionately affected by a reduction in revenues, as any corresponding reduction in expenses may not be proportionate to the reduction in revenues.

We are dependent on the ability of our licensees and development partners for obtaining regulatory approvals and market acceptance of their products, for which we may have no control.

A large part of our success will depend on our ability, or that of our licensees, to obtain timely regulatory approval for products employing our technology. Moreover, our success will also depend on whether, and how quickly, our licensees gain market acceptance of products incorporating our technology, compared to competitors using competing technologies.

Negative publicity concerning methods of human tissue recovery and screening of donor tissue in the industry in which we operate may reduce demand for our allografts and impact the supply of available donor tissue.

Media reports or other negative publicity concerning both improper methods of tissue recovery from donors and disease transmission from donated tissue may limit widespread acceptance of our allografts. Unfavorable reports of improper or illegal tissue recovery practices, both in the United States and internationally, as well as incidents of improperly processed tissue leading to transmission of disease, may broadly affect the rate of future tissue donation and market acceptance of allograft technologies. Potential patients may not be able to distinguish our allografts, technologies and the tissue recovery and the processing procedures from those of our competitors or others engaged in tissue recovery. In addition, families of potential donors may become reluctant to agree to donate tissue to for-profit tissue processors.

Our revenues will depend upon prompt and adequate reimbursement from public and private insurers and national health systems.

Political, economic and regulatory influences are subjecting the healthcare industry in the United States to fundamental change. The ability of hospitals to pay fees for allograft bone tissue products depends in part on the extent to which reimbursement for the costs of such materials and related treatments will continue to be available from governmental health administration authorities, private health coverage insurers and other organizations. We may have difficulty gaining market acceptance for our products if government and third-party payors do not provide adequate coverage and reimbursement. Major third-party payors of hospital services and hospital outpatient services, including Medicare, Medicaid and private healthcare insurers, annually revise their payment methodologies, which can result in stricter standards for reimbursement of hospital charges for certain medical procedures or the elimination of reimbursement. Further, Medicare, Medicaid and private healthcare insurer cutbacks could create downward price pressure on our products.

Our operating results will be harmed if we are unable to effectively manage and sustain our future growth.

We might not be able to manage our future growth efficiently or profitably. Our business is unproven on a large scale and actual revenue and operating margins, or revenue and margin growth, may be less than expected. If we are unable to scale our production capabilities efficiently, we may fail to achieve expected operating margins, which would have a material and adverse effect on our operating results. Growth may also stress our ability to adequately manage our operations, quality of products, safety and regulatory compliance. If growth significantly decreases our reserves, we may be required to obtain additional financing, which may increase our indebtedness or result in dilution to our stockholders. Further, there can be no assurance that we would be able to obtain any additional financing.

Future business combinations may be difficult to integrate and cause our attention to be diverted.

We may pursue various business combinations with other companies or acquisitions of additional product lines. There can be no assurance that such acquisitions will be available at all, or on terms acceptable to us. These may require additional financing which may increase our indebtedness or outstanding shares, resulting in dilution to stockholders. The inability to obtain such future financing may inhibit our growth and operating results. Integration of acquisitions or additional products can be time consuming, difficult and expensive and may significantly impact operating results. We may sell some or all of our product lines to other companies or may agree to combine with another company. Selling some of our product lines may inhibit our ability to generate positive operating results going forward.

Acquisitions that we consummate could disrupt our business and harm our financial condition.

In the future, we may evaluate potential strategic acquisitions of complementary businesses, products or technologies. We may not be able to identify appropriate acquisition candidates or successfully negotiate, finance or integrate any businesses, products or technologies that we acquire. Furthermore, the integration of any acquisition may divert management's time and resources from our core business. While we, from time to time, evaluate potential acquisitions of businesses, products and technologies, and anticipate continuing to make these evaluations, we have no present understandings, commitments or agreements with respect to any acquisitions.

We may be subject to future product liability litigation that could be expensive and may not be adequate in a catastrophic situation.

Although we are not currently subject to any product liability proceedings, we may incur material liabilities relating to product liability claims in the future, including product liability claims arising out of the usage of our products.

We may implement a product recall or voluntary market withdrawal due to product defects or product enhancements and modifications, which would significantly increase our costs.

The manufacturing and marketing of our biologic products, medical devices and coating technologies involves an inherent risk that our products may prove to be defective. In that event, we may voluntarily implement a recall or market withdrawal or may be required to do so by a regulatory authority. A recall of one of our products, or a similar product manufactured by another manufacturer, could impair sales of the products we market as a result of confusion concerning the scope of the recall or as a result of the damage to our reputation for quality and safety.

Risks Related to the Regulatory Environment in which We Operate

U.S. governmental regulation could restrict the use of our products or our procurement of tissue.

In the United States, the procurement and transplantation of allograft bone tissue is subject to federal law pursuant to the National Organ Transplant Act ("NOTA"), a criminal statute which prohibits the purchase and sale of human organs used in human transplantation, including bone and related tissue, for "valuable consideration." NOTA permits reasonable payments associated with the removal, transportation, processing, preservation, quality control, implantation and storage of human bone tissue. We provide services in all of these areas in the United States, with the exception of removal and implantation, and receive payments for all such services. We make payments to certain of our clients and tissue banks for their services related to recovering allograft bone tissue on our behalf. If NOTA is interpreted or enforced in a manner which prevents us from receiving payment for services we render or which prevents us from paying tissue banks or certain of our clients for the services they render for us, our business could be materially and adversely affected.

We are engaged through our marketing employees, independent sales agents and sales representatives in ongoing efforts designed to educate the medical community as to the benefits of our products, and we intend to continue our educational activities. Although we believe that NOTA permits payments in connection with these educational efforts as reasonable payments associated with the processing, transportation and implantation of our products, payments in connection with such education efforts are not exempt from NOTA's restrictions and our inability to make such payments in connection with our education efforts may prevent us from paying our sales representatives for their education efforts and could adversely affect our business and prospects. No federal agency or court has determined whether NOTA is, or will be, applicable to every allograft bone tissue-based material which our processing technologies may generate. Assuming that NOTA applies to our processing of allograft bone tissue, we believe that we comply with NOTA, but there can be no assurance that more restrictive interpretations of, or amendments to, NOTA will not be adopted in the future which would call into question one or more aspects of our method of operations.

Our business is subject to continuing regulatory compliance by the FDA and other authorities.

As a manufacturer and marketer of medical devices, we are subject to extensive regulation by the FDA and the Center for Medicare Services of the U.S. Department of Health and Human Services and other federal governmental agencies and, in some jurisdictions, by state and foreign governmental authorities. These regulations govern the introduction of new medical devices, the observance of certain standards with respect to the design, manufacture, testing, labeling, promotion and sales of the devices, the maintenance of certain records, the ability to track devices, the reporting of potential product defects, the import and export of devices and other matters. We are facing an increasing amount of scrutiny and compliance costs as more states are implementing regulations governing medical devices, pharmaceuticals and/or biologics which affect many of our products.

Medical devices that incorporate coatings technology are subject to FDA regulation and compliance. Generally, any medical device manufacturer that wishes to incorporate our coatings technology into its products will be responsible for obtaining FDA approval for the medical devices it intends to market; we will assist in the 510(k) filing submitted by licensees. The FDA process can take several months to several years in the United States. The time required to obtain approval for international sales may be longer or shorter, depending on the laws of the particular country. There can be no assurance that our licensees will be able to obtain FDA or international approval on a timely basis. The FDA may also require the more extensive PMA process for certain products. Approval or clearance may place substantial restrictions on the indications for which the product may be marketed or to whom it may be marketed, warnings that may be required to accompany the product or additional restrictions placed on the sale and/or use of the product. Changes in regulations or adoption of new regulations could also cause delays in obtaining product approval. In addition, regulatory approval is subject to continuing compliance with regulatory standards, and product approval is subject to withdrawal if a licensee fails to comply with standards, or if an unforeseen event should occur concerning a product. Significant delays in obtaining product approval could have a significantly detrimental impact on our business. See “Description of Business - Government Regulation.”

Human tissues intended for transplantation have been regulated by the FDA since 1993. In May 2005, three new comprehensive regulations went into effect that address manufacturing activities associated with human cells, tissues and cellular and tissue-based products (HCT/Ps). The first requires that companies that produce and distribute HCT/Ps register with the FDA. The second provides criteria that must be met for donors to be eligible to donate tissues and is referred to as the “Donor Eligibility” rule. The third rule governs the processing and distribution of the tissues and is often referred to as the “Current Good Tissue Practices” rule. Together they are designed to ensure that sound, high quality practices are followed to reduce the risk of tissue contamination and of communicable disease transmission to recipients. See “Description of Business - Government Regulation.”

The “Good Tissue Practices” rule covers all stages of allograft processing, from procurement of tissue to distribution of final allografts. These regulations increased regulatory scrutiny within the industry in which we operate and have lead to increased enforcement action which affects the conduct of our business. In addition, these regulations can increase the cost of tissue recovery activities.

Other regulatory entities include state agencies with statutes covering tissue banking. Regulations issued by Florida, New York, California and Maryland will be particularly relevant to our business. Most states do not currently have tissue banking regulations. However, recent incidents of allograft related infections in the industry may stimulate the development of regulation in other states. It is possible that others may make allegations against us or against donor recovery groups or tissue banks about non-compliance with applicable FDA regulations or other relevant statutes or regulations. Allegations like these could cause regulators or other authorities to take investigative or other action, or could cause negative publicity for our business and the industry in which we operate.

Our products may be subject to regulation in the EU as well should we enter that market. In the European Union (“EU”), regulations, if applicable, differ from one EU member state to the next. Because of the absence of a harmonized regulatory framework and the proposed regulation for advanced therapy medicinal products in the EU, as well as for other countries, the approval process for human derived cell or tissue based medical products may be extensive, lengthy, expensive and unpredictable. Among others, some of our products may be subject to European Union member states’ regulations that govern the donation, procurement, testing, coding, traceability, processing, preservation, storage, and distribution of human tissues and cells and cellular or tissue-based products. Some EU member states have their own tissue banking regulations.

Clinical trials can be long, expensive and ultimately uncertain.

Clinical trials are required to develop products, gain market acceptance and obtain 510(k) certifications from the FDA. We have several clinical trials planned and will likely undertake future trials. These trials often take two years to execute and are subject to factors within and outside of our control. The outcome of these trials is uncertain and may have a significant impact on the success of our current and future products and future profits.

The commencement or completion of any of our clinical trials may be delayed or halted for numerous reasons, including, but not limited to, a regulatory body placing clinical trials on hold, patients not enrolling in clinical trials at the rate we expect, patients experiencing adverse side effects, third party contractors failing to perform in accordance with our anticipated schedule or consistent with good clinical practices, inclusive or negative interim trial results or our inability to obtain sufficient quantities of raw materials to produce our products. Our development costs will increase if we have material delays in our clinical trials or if we need to perform more or larger clinical trials than planned. If this occurs, our financial results and the commercial prospects for our products will be harmed and our prospects for profitability will be harmed.

Product pricing (and, therefore, profitability) is subject to regulatory control.

The pricing and profitability of our products may become subject to control by the government and other third-party payors. The continuing efforts of governmental and other third-party payors to contain or reduce the cost of healthcare through various means may adversely affect our ability to successfully commercialize our products. In most foreign markets, the pricing and/or profitability of certain diagnostics and prescription pharmaceuticals are subject to governmental control. In the United States, we expect that there will continue to be federal and state proposals to implement similar governmental control. Changes in prices, including any mandated pricing, could impact our revenue and financial performance. See “Description of Business - Government Regulation.”

Risks Related to Our Intellectual Property

Our success will depend on our ability to protect our intellectual property rights.

Our success will depend, to a large extent, on our ability to successfully obtain and maintain patents, prevent misappropriation or infringement of intellectual property, maintain trade secret protection, and conduct operations without violating or infringing on the intellectual property rights of third parties. See “Description of Business - Technology and Intellectual Property.” There can be no assurance that our patented and patent-pending technology will provide us with a competitive advantage, that we will be able to develop or acquire additional technology that is patentable, or that third parties will not develop and offer technologies which are similar to ours. Moreover, we can provide no assurance that confidentiality agreements, trade secrecy agreements or similar agreements intended to protect unpatented technology will provide the intended protection. Intellectual property litigation is extremely expensive and time-consuming, and it is often difficult, if not impossible, to predict the outcome of such litigation. A failure by us to protect our intellectual property could have a materially adverse effect on our business and operating results and our ability to successfully compete in this industry.

We may not be able to obtain or protect our proprietary rights relating to our products.

We may not be able to obtain, maintain and protect certain proprietary rights necessary for the development and commercialization of our products or product candidates. Our commercial success will depend in part on obtaining and maintaining patent protection on our products and successfully defending these patents against third-party challenges. Our ability to commercialize our products will also depend in part on the patent positions of third parties, including those of our competitors. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. Accordingly, we cannot predict with certainty the scope and breadth of patent claims that may be afforded to other companies’ patents. We could incur substantial costs in litigation if we are required to defend against patent suits brought by third parties, or if we initiate suits to protect our patent rights**.**

Future protection for our proprietary rights is uncertain.

The degree of future protection for our proprietary rights is uncertain. We cannot ensure that:

- we were the first to make the inventions covered by each of our patent applications;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- any of our pending patent applications will result in issued patents;
- any of our issued patents or those of our licensors will be valid and enforceable;
- any patents issued to us or our collaborators will provide a basis for commercially viable products or will provide us with any competitive advantages or will not be challenged by third parties;
- we will develop additional proprietary technologies that are patentable; or
- the patents of others will not have a material adverse effect on our business rights and measures we rely on to protect the intellectual property underlying our products may not be adequate to prevent third parties from using our technology, all of which could harm our ability to compete in the market.

Our success depends on our ability to avoid infringing on the intellectual property rights of third parties.

Our commercial success depends in part on our ability and the ability of our collaborators to avoid infringing patents and proprietary rights of third parties. Third parties may accuse us or our collaborators of employing their proprietary technology in our products, or in the materials or processes used to research or develop our products, without authorization. Any legal action against our collaborators or us claiming damages and/or seeking to stop our commercial activities relating to the affected products, materials and processes could, in addition to subjecting us to potential liability for damages, require our collaborators or us to obtain a license to continue to utilize the affected materials or processes or to manufacture or market the affected products. We cannot predict whether we or our collaborators would prevail in any of these actions or whether any license required under any of these patents would be made available on commercially reasonable terms, if at all. If we are unable to obtain such a license, we or our collaborators may be unable to continue to utilize the affected materials or processes or manufacture or market the affected products or we may be obligated by a court to pay substantial royalties and/or other damages to the patent holder. Even if we are able to obtain such a license, the terms of such a license could substantially reduce the commercial value of the affected product or products and impair our prospects for profitability. Accordingly, we cannot predict whether or to what extent the commercial value of the affected product or products or our prospects for profitability may be harmed as a result of any of the liabilities discussed above. Furthermore, infringement and other intellectual property claims, with or without merit, can be expensive and time-consuming to litigate and can divert management's attention from our core business. We may be unable to obtain and enforce intellectual property rights to adequately protect our products and related intellectual property.

Others may claim an ownership interest in our intellectual property.

A third-party may claim an ownership interest in one or more of our patents or intellectual property. While we believe we own 100% of the right, title and interest in the patents for which we have applied and our other intellectual property, including that which we license from third parties, we cannot guarantee that a third-party will not, at some time, assert a claim or an interest in any of such patents or intellectual property. We are presently unaware of any claims or assertions by third-parties with respect to its patents or intellectual property, except that, as a defense to a lawsuit we brought against Allograft for infringement of our OsteoSponge® trademark, Allograft has counterclaimed in an attempt to invalidate such mark. A successful challenge or claim by a third party to our patents or intellectual property could have a significant adverse effect on our prospects.

The result of litigation may result in financial loss and/or impact our ability to sell our products going forward.

We will vigorously defend any future intellectual property litigation that may arise but there can be no assurance that we will prevail in these matters. An unfavorable judgment may result in a financial burden on us. An unfavorable judgment may also result in restrictions on our ability to sell certain products and therefore may impact future operating results.

Risks Related to Our Common Stock

Because we became public through a reverse merger, we may not be able to attract the attention of major brokerage firms.

Additional risks are associated with our becoming public through a reverse merger. For example, security analysts of major brokerage firms may not provide coverage of us since there is no incentive to brokerage firms to recommend the purchase of our common stock. We cannot assure you that brokerage firms will want to conduct any public offerings on our behalf in the future.

If we do not timely file and have declared effective the registration statement required pursuant to our private placement, we will be required to pay liquidated damages.

As part of our private placement, we entered into a registration rights agreement. Under this agreement, we are obligated to file a registration statement providing for the resale of the shares of common stock acquired in the private placement and underlying the warrants. Pursuant to the agreement, we agreed to file and have declared effective the registration statement by a certain date. If we do not meet this timeline, we must pay liquidated damages in the amount equal to 1% of the aggregate investment amount per month, subject to a maximum limit of 12% of the aggregate investment amount.

If and when our registration statement becomes effective, a significant number of shares of common stock will be eligible for sale, which could depress the market price of our common stock.

Following the effective date of the registration statement, a significant number of our shares of common stock will become eligible for sale in the public market, which could harm the market price of the stock. Further, shares may be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect as well. In general, a person who has held restricted shares for a period of six months may, upon filing a notification with the SEC on Form 144, sell our common stock into the market, subject to certain limitations.

To the extent any of Bacterin's former stockholders elect to exercise any dissenters rights in connection with the Reverse Merger, we are obligated to issue additional shares of our common stock to the non-dissenting Bacterin stockholders.

To the extent any of Bacterin's former stockholders elect to exercise any dissenters' rights in connection with the Reverse Merger, we are 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 would 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).

There has been no active public trading market for our common stock.

There is currently no active public market for our common stock. An active trading market may not develop or, if developed, may not be sustained. The lack of an active market may impair your ability to sell your shares of common stock at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the market value and increase the volatility of your shares of common stock. An inactive market may also impair our ability to raise capital by selling shares of common stock and may impair our ability to acquire other companies or assets by using shares of our common stock as consideration.

The market price of our common stock may be volatile and may decline in value.

The market price of our common stock has been and will likely continue to be highly volatile, as is the stock market in general, and the market for OTC Bulletin Board quoted stocks, in particular. Some of the factors that may materially affect the market price of our common stock are beyond our control, such as changes in financial estimates by industry and securities analysts, conditions or trends in the industry in which we operate or sales of our common stock. These factors may materially adversely affect the market price of our common stock, regardless of our performance. In addition, the public stock markets have experienced extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

Our stockholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.

If our future operations or acquisitions are financed through the issuance of equity securities, our stockholders could experience significant dilution. In addition, securities issued in connection with future financing activities or potential acquisitions may have rights and preferences senior to the rights and preferences of our common stock. We also have established an equity incentive plan for our management and employees. We expect to grant options to purchase shares of our common stock to our directors, employees and consultants and we will grant additional options in the future. The issuance of shares of our common stock upon the exercise of these options may result in dilution to our stockholders.

Our current management can exert significant influence over us and make decisions that are not in the best interests of all stockholders.

Our executive officers and directors beneficially own as a group approximately 43.12% of our outstanding shares of common stock. As a result, these stockholders will be able to assert significant influence over all matters requiring stockholder approval, including the election and removal of directors and any change in control. In particular, this concentration of ownership of our outstanding shares of common stock could have the effect of delaying or preventing a change in control, or otherwise discouraging or preventing a potential acquirer from attempting to obtain control. This, in turn, could have a negative effect on the market price of our common stock. It could also prevent our stockholders from realizing a premium over the market prices for their shares of common stock. Moreover, the interests of the owners of this concentration of ownership may not always coincide with our interests or the interests of other stockholders and, accordingly, could cause us to enter into transactions or agreements that we would not otherwise consider.

Our common stock is considered “penny stock” and may be difficult to sell.

The SEC has adopted Rule 3a51-1, which establishes the definition of a "penny stock" for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. The market price of our common stock is less than $5.00 per share and therefore may be designated as a “penny stock” according to SEC rules. For any transaction involving a penny stock, unless exempt, Rule 15g-9 requires:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- that the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our Common Stock and cause a decline in the market value of our stock. In addition, since the Common Stock is currently traded on the OTC Bulletin Board, investors may find it difficult to obtain accurate quotations of the Common Stock and may experience a lack of buyers to purchase such stock or a lack of market makers to support the stock price.

We do not anticipate paying dividends in the foreseeable future; you should not buy our stock if you expect dividends.

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

We intend to apply for trading our common stock on Nasdaq, although we may not satisfy its eligibility criteria for listing or will ever be listed on Nasdaq.

We intend to apply to list our common stock for trading on the Nasdaq Capital Market as soon as reasonable practicable. No assurance can be given that we will satisfy the eligibility criteria or other initial listing requirements, or that our shares of common stock will ever be listed on Nasdaq or another national securities exchange.

We could issue “blank check” preferred stock without stockholder approval with the effect of diluting then current stockholder interests and impairing their voting rights, and provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Our certificate of incorporation provides for the authorization to issue up to 5,000,000 shares of “blank check” preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors. Our board of directors is empowered, without stockholder approval, to issue a series of preferred stock with dividend, liquidation, conversion, voting or other rights which could dilute the interest of, or impair the voting power of, our common stockholders. The issuance of a series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control. For example, it would be possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of our company. In addition, advanced notice is required prior to stockholder proposals.

Cautionary Language Regarding Forward-Looking Statements and Industry Data

This current report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, many of which are beyond our control. Our actual results could differ materially and adversely from those anticipated in such forward-looking statements as a result of certain factors, including those set forth above and elsewhere in this report. Important factors that may cause actual results to differ from these forward-looking statements include, but are not limited to, for example:

- adverse economic conditions,
- inability to raise sufficient additional capital to operate our business,
- unexpected costs, lower than expected sales and revenues, and operating deficits,
- adverse results of any legal proceedings,
- Inability to enter into acceptable relationships with one or more of our suppliers for key biomaterial supplies and the failure of such suppliers to deliver acceptable quality and quantity of such supplies on a cost-effective basis,

- the volatility of our operating results and financial condition,
- inability to attract or retain qualified senior management personnel, including sales and marketing personnel
- Inability to achieve anticipated product sales, and
- other specific risks that may be referred to in this current report.

All statements, other than statements of historical facts, included in this current report regarding our strategy, future operations, financial position, estimated revenue or losses, projected costs, prospects and plans and objectives of management are forward-looking statements. When used in this current report, the words "will," "may," "believe," "anticipate," "intend," "estimate," "expect," "project," "plan" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements or other information contained herein. Stockholders and potential investors should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable, we cannot assure stockholders and potential investors that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from expectations under "Risk Factors" and elsewhere in this current report. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Information regarding market and industry statistics contained in this current report is included based on information available to us that we believe is accurate. It is generally based on academic and other publications that are not produced for purposes of securities offerings or economic analysis. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. Except as required by U.S. federal securities laws, we have no obligation to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements. See "Risk Factors" for a more detailed discussion of risks and uncertainties that may have an impact on our future results.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with our financial statements and related notes set forth in Item 9.01 of this report. Unless the context otherwise requires, "we," "our," "us" and similar expressions used in this Management's Discussion and Analysis of Financial Condition and Results of Operation 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

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.

The manufacturing and operations of the biologics and device 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. 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 customers are located worldwide, with approximately 91% of our sales being derived from customers located in the United States. Our headquarters, laboratory and manufacturing facilities are located in Belgrade, Montana.

Revenue Model

We generate revenue from a variety of 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. In order for us to recognize revenue from these sources, the following criteria generally must be met:

- we have entered into a legally binding agreement with the customer for the product or services;
- the products or services have been delivered by us;
- our fee for providing the products or services is fixed and determinable; and
- our fee is actually collectible.

We record revenue net of any applicable sales, use, or excise taxes. If our arrangement with the customer includes a right of acceptance or a right to cancel, revenue is recognized when our products or services are accepted or when the right to cancel has expired. We sell to certain customers under consignment arrangements. Under these arrangements, revenue is recorded on the date of sale. Revenue for research and development services provided by us is recognized based upon our meeting certain performance standards, such as incurring qualifying costs, as set forth in the specific arrangement governing the provision of such services.

Results of Operations

Comparison of Three Months Ended March 31, 2010 and 2009

The following table sets forth key components of our results of operations during the three months ended March 31, 2010 and 2009, both in dollars and as a percentage of our revenue. The acquisition of Bacterin International Holdings, Inc. f/k/a K-Kitz, Inc. by Bacterin through the Reverse Merger occurred after March 31, 2010. The combined presentation below refers to that of Bacterin International Holdings, Inc. f/k/a K-Kitz, Inc. and Bacterin.

	Unaudited Three Months Ended March 31,			
	2010		2009	
	Amount	% of Revenue	Amount	% of Revenue
Revenues				
Tissue sales	$ 2,707,124	98.93%	$ 1,984,676	94.58%
Royalties and other	29,309	1.07%	113,765	5.42%
Total Revenue	2,736,433	100.00%	2,098,441	100.00%
Cost of tissue sales	604,622	22.10%	483,640	23.05%
Gross Profit	2,131,811	77.90%	1,614,801	76.95%
Operating Expenses				
General and administrative	816,700	29.85%	405,145	19.31%
Selling and marketing	701,879	25.65%	224,312	10.69%
Depreciation	152,502	5.57%	163,575	7.80%
Compensation expense	1,483,871	54.23%	720,446	34.33%
Total Operating Expenses	3,154,952	115.29%	1,513,478	72.12%
Income from Operations	(1,023,141)	-37.39%	101,323	4.83%
Other Income (Expense)				
Interest expense	(625,797)	-22.87%	(96,161)	-4.58%
Other	5,924	0.22%	10,868	0.52%
Total Other Income (Expense)	(619,873)	-22.65%	(85,293)	-4.06%
Net Income Before Benefit (Provision) for Income Taxes	(1,643,014)	-60.04%	16,030	0.76%
Benefit (Provision) for Income Taxes				
Current	-	0.00%	-	0.00%
Deferred	-	0.00%	-	0.00%
Net Income	$ (1,643,014)	-60.04%	$ 16,030	0.76%

Total revenue for the three months ended March 31, 2010 increased by 30.4% to $2,736,433 compared to $2,098,441 in the three months ended March 31, 2009. The increase related primarily to the implementation of a direct sales force effort in July 2009. Prior to that time, we utilized a distributor model with a limited direct sales force.

Costs of Revenue

Costs of revenue consist primarily of tissue and device manufacturing costs. Costs of revenue increased by 25.0%, or $120,982, to $604,622 for the three months ended March 31, 2010, from $483,640 for the three months ended March 31, 2009. Cost of revenue increase was the result of increased sales and a write-off of approximately $64,000 of obsolete inventory. Our gross profit margin increased slightly to 77.9% for the three months ended March 31, 2010 compared to 76.95% for the three months ended March 31, 2009.

Operating Expenses

Operating expenses include general and administrative expenses, selling and marketing expenses, depreciation, and compensation costs, including incentive compensation and non cash stock based compensation. Operating expenses increased 108.5%, or $1,641,474, to $3,154,952 for the three months ended March 31, 2010 from $1,513,478 for the three months ended March 31, 2009.

General and Administrative

General and administrative expenses consist principally of employee related costs and corporate expenses for legal, accounting and other professional fees as well as occupancy costs. General and administrative expenses increased 101.6%%, or $411,555 to $816,700, for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. The increase is largely associated with one-time legal and professional fees incurred throughout the transactions described in this report.

Selling and Marketing

Selling and marketing expenses exclude sales based compensation expense and primarily consist of costs for trade shows, sales conventions and meetings, travel expenses, advertising and other sales and marketing related costs. Selling and marketing expenses increased 212.9%, or $477,567, to $701,879 for the three months ended March 31,2010 from $224,312 for the first quarter of 2009. As a percentage of revenue, selling and marketing expenses increased to 25.65% in the first quarter of 2010 from 10.69% in the comparable period of the prior year. The increases were primarily the result of increased travel costs associated with the larger sales force and a substantial increase in marketing and advertising activities in 2010.

Depreciation

Depreciation expense consists of depreciation of long-lived property and equipment. Depreciation expenses decreased 6.8%, to $152,502 for the three months ended March 31, 2010 from $163,575 for the three months ended March 31, 2009. This decrease was a result of certain assets becoming fully depreciated.

Compensation expense

Compensation expense consists of payroll and related expenses and includes non-cash based stock compensation expense. Compensation expense increased 106% or $763,425, to $1,483,871 for the three months ended March 31,2010 from $720,446 in the comparable period of the prior year. This increase was primarily due to our implementation of a direct sales effort in 2009 which substantially increased the sales force headcount. In addition, we granted more stock options to employees than the prior year. As a percentage of revenues, compensation expense in the first quarter of 2010 was 54.23% of revenues compared to 34.33% in the prior year.

Interest Expense

Interest expense is from our notes payable and convertible debt instruments. Interest expense for the three months ended March 31, 2010 increased 550.8% to $625,797 as compared to $96,161 for the three months ended March 31, 2009. This increase was a direct result of the interest expense associated with the increase in convertible notes payable.

Comparison of Twelve Months Ended December 31, 2009 and December 31, 2008

The following table sets forth key components of our results of operations during the twelve months ended December 31, 2009 and 2008, both in actual dollars and as a percentage of our revenue. The acquisition of Bacterin International Holdings, Inc. f/k/a K-Kitz, Inc. by Bacterin through the Reverse Merger occurred after March 31, 2010. The combined presentation below refers to that of Bacterin International Holdings, Inc. f/k/a K-Kitz, Inc. and Bacterin.

	Twelve Months Ended December 31,			
	2009		2008	
	Amount	% of Revenue	Amount	% of Revenue
Revenues				
Tissue sales	$ 7,101,357	96.05%	$ 8,031,611	97.80%
Royalties and other	292,136	3.95%	180,848	2.20%
Total Revenue	7,393,493	100.00%	8,212,459	100.00%
Cost of tissue sales	2,318,142	31.35%	1,522,658	18.54%
Gross Profit	5,075,351	68.65%	6,689,801	81.46%
Operating Expenses				
General and administrative	2,218,162	30.00%	2,053,797	25.01%
Selling and marketing	1,281,932	17.34%	429,170	5.23%
Depreciation	661,847	8.95%	646,846	7.88%
Research and development	-	0.00%	288,091	3.51%
Compensation expense	4,535,964	61.35%	2,157,450	26.27%
Total Operating Expenses	8,697,905	117.64%	5,575,354	67.89%
Income from Operations	(3,622,554)	-49.00%	1,114,447	13.57%
Other Income (Expense)				
Interest expense	(513,934)	-6.95%	(1,374,360)	-16.74%
Other	10,746	0.15%	20,601	0.25%
Total Other Income (Expense)	(503,188)	-6.81%	(1,353,759)	-16.48%
Net Income Before Benefit (Provision) for Income Taxes	(4,125,742)	-55.80%	(239,312)	-2.91%
Benefit (Provision) for Income Taxes				
Current	-	0.00%	-	0.00%
Deferred	-	0.00%	-	0.00%
Net Income	$ (4,125,742)	-55.80%	$ (239,312)	-2.91%

Revenue in 2009 and 2008 was comprised solely of tissue and device sales. Total revenue decreased by 11.3% year-over-year at $7,393,493 in 2009, compared to $8,212,459 in 2008. The decrease was largely the result of transitioning the sales model from a distributorship model with a limited direct sales force to a direct sales force model. In addition, during 2009, we terminated an agreement with a distributor customer with annual sales of approximately $3,000,000 as part of our transition to a direct sales force model.

Our largest single customer accounted for 12% and 37% of total consolidated revenues for the years ended 2009 and 2008, respectively. Our relationship with the customer is governed by a contract between the two parties which identifies prices for the services to be rendered and payments to be made by the customer to us. The contract expires in February 2011.

Costs of Revenue

Costs of revenue consist primarily of tissue and device manufacturing costs. Costs of revenue increased by 52.2%%, or $795,484, to $2,318,142 for the year ended December 31, 2009, from $1,522,658 for the year ended December 31, 2008. Cost of revenue increase was the result of increased costs associated with our higher sales and a product mix shift which resulted in higher sales of products with higher costs.

Operating Expenses

Operating expenses include general and administrative expenses, selling and marketing expenses, depreciation, research and development expenses, and compensation costs, including incentive compensation. Operating expenses increased 56.0%, or $3,122,151 for the year ended December 31, 2009 compared to the year ended December 31, 2008.

General and Administrative

General and administrative expenses consist principally of employee related costs and corporate expenses for legal, accounting and other professional fees as well as occupancy costs. General and administrative expenses increased 8%, or $164,365 to $2,218,162, for the twelve months ended December 31, 2009 compared to 2008. The increase is largely associated with increased legal and professional fees incurred between the two periods. As a percentage of revenues, general and administrative expenses were 30.0% in 2009 compared to 25.01% in 2008.

Selling and Marketing

Selling and marketing expenses exclude sales based compensation expense and primarily consist of costs for trade shows, sales conventions and meetings, travel expenses, advertising and other sales and marketing related costs. Selling and marketing expenses increased 198.7%, or $852,762, to $1,281,932 for the twelve months ended December 31, 2009 from $429,170 for 2008. As a percentage of revenue, selling and marketing expenses increased to 17.34% in 2009 from 5.23% in the prior year. The increases were primarily the result of increased travel costs associated with the larger sales force and a substantial increase in marketing and advertising activities in 2009 as part of our switch to a direct sales force model from a distributorship model.

Depreciation

Depreciation expense consists of depreciation of long-lived property and equipment. Depreciation expense remained relatively unchanged increasing to $661,847 in 2009 from $646,846 in 2008.

Research and Development

Research and development expenses consist primarily of costs for product research and development and department related expenses. Research and development expenses were $288,091 in 2008. In 2009, we did not incur any research and development expenses as we focused our efforts on the implementation of our direct sales force model.

Compensation expense

Compensation expense consists of payroll and related expenses and includes non-cash stock compensation expense. Compensation expense increased 110.2% or $2,378,514, to $4,535,964 for 2009 from $2,157,450 in the comparable year period for 2008. This increase was primarily due to our implementation of a direct sales effort in 2009 which substantially increased the sales force headcount. In addition, we granted more stock options to employees in 2009 than in the prior year. As a percentage of revenues, compensation expense in 2009 was 61.35% compared to 26.27% in the prior year.

Interest Expense

Interest expense is from our promissory notes and convertible debt instruments. Interest expense for the year ended December 31, 2009 decreased 62.61%, or $860,426, as compared to the year ended December 31, 2008. This decrease was a result of lower debt balances during the year.

Liquidity and Capital Resources

Since our inception, we have historically financed our operations through operating cash flows, as well as the private placement of equity securities and debt, and other debt transactions. Most recently, on June 30, 2010, we raised approximately $7,508,329 through a private placement of equity securities and conversion of a portion of a bridge loan financing. At December 31, 2009, we had $1,368,573 of cash and cash equivalents and accounts receivables. In the first quarter of 2010, we received proceeds of $2,695,000 in connection with an unsecured convertible bridge loan financing. In addition, we have access to credit lines secured by certain of our accounts receivable balances.

Net cash used in operating activities for the year ended December 31, 2009 was $3,671,596. This was primarily related to cash used to fund our operations as well as an increase of accounts receivable of approximately $739,000 and an increase in our inventory balance of approximately $851,000. For the twelve months ended December 31, 2008, net cash provided by operating activities was $502,008 due to a lower net loss compared to 2009.

Net cash provided by financing activities was $3,436,991 and $545,169 for the years ended December 31, 2009 and 2008, respectively. The net cash provided from financing activities during 2009 was $1,950,000 from the sale and issuance of common stock and $1,000,000 from releases on certain restrictions on cash. The cash receipts were partially offset from the payment of notes payable in the amount of $942,562. Net cash provided from financing in 2008 included $1,000,000 in proceeds from notes payable, $2,340,000 from issuance of convertible notes payable and $1,278,514 from the sale and issuance of common stock. The cash inflows were partially offset by the payments of $3,073,345 for long-term debt, stockholder notes and capital leases.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures or capital resources that are material to an investor in our shares.

Cash Requirements

We believe that our cash on hand from our recent private placement of equity securities and from operations will be sufficient to meet our anticipated cash requirements through December 31, 2010. If we do not meet our revenue objectives over that period, we may need to sell additional equity securities, which could result in dilution to our stockholders, or seek additional loans. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to expand our business operations and could harm our overall business prospects.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the beneficial ownership of our common stock as of June 30, 2010, by (a) each person who is known by us to beneficially own 5% or more of our common stock, (b) each of our directors and executive officers, and (c) all of our directors and executive officers as a group.

Name (1)	Number of Shares Beneficially Owned (2)	Percentage of Shares Beneficially Owned (3)
5% or Greater Stockholder:		
Guy S. Cook	13,180,189(4)	38.11%
Executive Officers and Directors:		
Guy S. Cook	13,180,189	38.11%
Mitchell Godfrey	810,248(5)	2.34%
Kent Swanson	408,716(6)	1.18%
Ken Calligar	50,000	*%
Gary Simon	117,188(7)	*%
Daniel Frank	85.938(8)	*%
John P. Gandolfo	0	*%
Jesus Hernandez	535,680(9)	1.53%
Darrel Holmes	99,556(10)	*%
All executive officers and directors as a group (9 persons)	15,287,514	43.12%

* Less than 1% of outstanding shares of common stock.

(1) The address of each person is c/o Bacterin International, Inc., 600 Cruiser Lane, Belgrade Montana 59714.

(2) Unless otherwise indicated, includes shares owned by a spouse, minor children and relatives sharing the same home, as well as entities owned or controlled by the named person. Also includes shares if the named person has the right to acquire those shares within 60 days after June 30, 2010, by the exercise or conversion of any warrant, stock option or convertible preferred stock. Unless otherwise noted, shares are owned of record and beneficially by the named person.

(3) The calculation in this column is based upon 34,440,103 shares of common stock outstanding on June 30, 2010. The shares of common stock underlying warrants and stock options are deemed outstanding for purposes of computing the percentage of the person holding them, but are not deemed outstanding for the purpose of computing the percentage of any other person.

(4) Includes (a) 19,200 shares of our common stock issuable to Sue Cook, Mr. Cook's spouse and our head of human resources, upon the exercise of stock options previously granted by Bacterin under its 2004 Stock Incentive Plan, (b) 484,375 shares of common stock acquired in the private placement that occurred concurrently with the Reverse Merger, and (c) warrants to purchase 121,094 shares of our common stock which were also acquired in such private placement.

(5) Includes 144,000 shares of our common stock issuable to Mr. Godfrey upon the exercise of stock options previously granted by Bacterin under its 2004 Stock Incentive Plan.

(6) Includes 67,049 shares of our common stock issuable to Mr. Swanson upon the exercise of warrants previously issued to Mr. Swanson in connection with his conversion of certain debt.

(7) Includes (a) 93,750 shares of common stock acquired in the private placement that occurred concurrently with the Reverse Merger, and (b) warrants to purchase 23,438 shares of our common stock which were also acquired in such private placement, all of which are held indirectly through an entity that Mr. Simon controls.

(8) Includes (a) 68,750 shares of common stock acquired in the private placement that occurred concurrently with the Reverse Merger, and (b) warrants to purchase 17,188 shares of our common stock which were also acquired in such private placement.

(9) Represents shares of our common stock issuable to Mr. Hernandez upon the exercise of stock options previously granted by Bacterin under its 2004 Stock Incentive Plan.

(10) Includes 89,556 shares of our common stock issuable to Mr. Holmes upon the exercise of stock options previously granted by Bacterin under its 2004 Stock Incentive Plan.

Directors and Executive Officers

Executive Officers and Directors

The names, ages and positions of our executive officers and directors as of June 30, 2010, are as follows:

Name	Age	Position
Guy Cook	45	Chairman of the Board, Chief Executive Officer, President and Chief Scientific Officer
Mitchell T. Godfrey	64	Director, Secretary and Treasurer
Kent Swanson	65	Director
Ken Calligar	53	Director
Daniel Frank	53	Director
Gary Simon	49	Director
John P. Gandolfo	49	Interim Chief Financial Officer
Jesus Hernandez	54	Vice President of Biologics
Darrel Holmes	57	Vice President of Medical Devices

The principal occupations for the past five years (and, in some instances, for prior years) of each of our executive officers and directors are as follows. All of such persons joined our company in the same positions that they held in Bacterin at the closing of the Reverse Merger on June 30, 2010.

Guy Cook, Chairman of the Board, Chief Executive Officer, President and Chief Scientific Officer, is considered an international expert in biofilm science and its application. He is widely published and has been invited to speak at many prominent biofilm conferences, including the “Anti-Infective Materials” Seminar in Tokyo and the FDA-CDRH Antimicrobial Device Efficacy Testing Seminar. Mr. Cook started his career as a product specialist in the Image Analysis Department for Laboratory Equipment Company in Chicago. He later became President of Delta Resources in Crystal Lake, Illinois, which specialized in developing customized image analysis solutions for the academic community. In 1996, he moved to Montana and worked as a Confocal Microscopist for the Center for Biofilm Engineering at the Montana State University where he developed several proprietary testing models for the medical device industry. Mr. Cook attended the University of Indiana and received Bachelor of Science degrees in Finance and Economics.

Mitchell T. Godfrey, Director, Secretary and Treasurer, has been involved over the past 25 years in a number of private enterprises, including consulting for and participation in firms in the manufacturing, medical devices, nuclear, service and animal health industries. Mr. Godfrey graduated from the University of Utah in 1968 with Bachelor of Science degrees in psychology and mathematics. He served as a Lieutenant in the U.S. Navy for a period of four years in the 1960s. Upon his return from overseas duty, he served as a director of the Utah Vietnam Agent Orange Program. He currently is the Chairman of the Montana based Crow Creek Falls Conservation Group and has been actively involved in many other organizations. Mr. Godfrey joined us in October 2003 as our Chief Financial Officer until December 2007, when his primary responsibility was changed to investor relations.

Kent Swanson, Director, was with Accenture for over 32 years, retiring from the firm in 2001 as a Senior Partner. He held global leadership and management positions in a wide range of industries and geographies. From 2001 to 2008, he was the Board Chair of ALN Medical Management; providing outsourced services for clinic-based physician practices. Also from 2001 to 2008, he was Board Chair for Boys Hope Girls Hope of Colorado, a charitable organization providing a home and scholarshiped education for disadvantaged children with significant capabilities and promise. From 2002 to 2009, he was a Board member, Audit Committee member and Compensation Committee Chair for MPC Computers. Mr. Swanson graduated with distinction from the University of Minnesota earning an M.S. in Business and received an M.B.A. from the University of Chicago in 1969.

Ken Calligar, Director, has over 25 years of executive level experience in the financial industry. In July 2008, he founded Convertible Capital, an investment banking firm, specializing in highly tailored capital raising and advisory work, where he serves as the managing director. Prior to Convertible Capital, from May 2005 to July 2008, he was a managing director with Jefferies & Co. where he ran the equity-linked Capital Markets Group. He has also held managing positions in convertible securities groups at H&Q, Chase, Painewebber, and UBS. Ken has solid experience in deal structuring, M&A, and raising capital in both equity and debt markets.

Daniel Frank, Director, joined Fidelity Investments in 1979 as an analyst, worked with Peter Lynch on the Magellan Fund and in 1982 was given sole portfolio responsibility for the Fidelity Special Situations Fund which he launched and grew to over $800 million. Danny left Fidelity after 14 years in 1996, ranked by Barrons as one of the top 100 portfolio managers. Danny then became Managing Director of the Soros Chatterjee Fund where he invested in public and private health care companies. He was also managing director of ACI Capital and, most recently, the managing director of Cerberus Capital management responsible for running a $300 million healthcare fund. Danny has severed on several public and private healthcare company boards including I-Stat, Aton Pharmaceuticals from 2006 to 2010, Reva Medical from 2006 to present, Molecular Insight Pharmaceuticals from 2003 to present, and Biosphere Medical (as board observer) from 2008 to 2010.

Gary Simon, Director, is a managing member of UVE Partners, LLC, which he co-founded in 2000. UVE Partners is a fund focused on realizing long term appreciation from investments in listed small and micro cap companies with capitalizations of $500 million, or less. Prior to UVE Partners, Gary was Senior Vice President of Barington Capital Group, a full-service investment banking firm. During the 1990s he served as Chief Financial Officer of Concord Camera Corp and Multi-Media Tutorial Services, both NASDAQ traded companies. Gary began his career at Ernst & Young where he served as a Senior Manager in the Corporate Finance Group, providing mergers and acquisitions advisory services to small and medium sized companies and as a Senior Accountant providing auditing and advisory services to emerging growth companies. Gary received his MBA in finance from New York University.

John P. Gandolfo, Chief Financial Officer, joined Bacterin as its interim Chief Financial Officer on a part-time basis, effective June 4, 2010, and filled this position full time commencing on July 6, 2010. Mr. Gandolfo has 25 years of experience as chief financial officer of rapidly growing private and publicly held companies with a primary focus in the life sciences, healthcare and medical device areas. Mr. Gandolfo has had direct responsibility over capital raising, including four public offerings, financial management, mergers and acquisition transactions and SEC reporting throughout his professional career. Prior to joining Bacterin, Mr. Gandolfo served as the Chief Financial Officer for Progenitor Cell Therapy LLC, a leading manufacturer of stem cell therapies. Prior to joining Progenitor, Mr. Gandolfo served as the Chief Financial Officer for Power Medical Interventions, Inc., a publicly held developer and manufacturer of computerized surgical stapling and cutter systems, from January 2007 to January 2009. Prior to joining PMI, Mr. Gandolfo was the Chief Financial Officer of Bioject Medical Technologies, Inc., a publicly held supplier of needle-free drug delivery systems to the pharmaceutical and biotechnology industries, from September 2001 to May 2006, and served on the Bioject's Board of Directors from September 2006 through May 2007. Prior to joining Bioject, Mr. Gandolfo was the Chief Financial Officer of Capital Access Network, Inc., a privately held specialty finance company, from 2000 through September 2001, and Xceed, Inc., a publicly held Internet consulting firm, from 1999 to 2000. From 1994 to 1999, Mr. Gandolfo was Chief Financial Officer and Chief Operating Officer of Impath, Inc., a publicly held, cancer-focused healthcare information company. From 1987 through 1994, he was Chief Financial Officer of Medical Resources, Inc., a publicly held manager of diagnostic imaging centers throughout the United States. A graduate of Rutgers University, Mr. Gandolfo is a certified public accountant (inactive status) who began his professional career at Price Waterhouse.

Jesus Hernandez, Vice President of Biologics, began his career as the Director of the Organ and Tissue Bank at University of California, Irvine Medical Center. He has over 20 years of organ and tissue banking experience, including having served as Chief Operating Officer and Chief Executive Officer for two national tissue banks. Mr. Hernandez served as the Chief Operating Officer of Bone Bank Allografts from November 1997 to April 2005. He has been an advisor for various committees including the United Network for Organ Sharing, Association of Organ Procurement Organizations, North American Transplant Coordinators Organization, American Association of Tissue Banks and served as a board member of the World Children's Transplant Fund. Mr. Hernandez graduated from the University of California, Irvine. Mr. Hernandez has served in his current position since April 2005.

Darrel Holmes, Vice President of Medical Devices, joined Bacterin in 2003 as Director of Operations. Mr. Holmes started his career as chemist and later Director of Operations for ICL Scientific. He later worked for Hycor Medical as the Director of Manufacturing, and then as Director of Operations at Stratagene Cloning Systems. Mr. Holmes moved to Montana and became the President of Big Spring Water in Bozeman. He holds several certificates including Environmental Inspector with the Environmental Assessment Association and is a Hazardous Materials Specialist. Mr. Holmes attended California State University at Long Beach and graduated with a Bachelor's Degree in Biology. He has over 25 years of Technical Operations experience in the medical device and diagnostics industries.

Scientific Advisory Board

Our Scientific Advisory Board assists us with issues relating to the clinical development and exploitation of our coating and biologic technologies. As our needs evolve, members with required areas of interest and expertise are added. The members of our Scientific Advisory Board are compensated with stock options and shares of common stock under our equity incentive plan.

Steven Scott MD, is currently the Chairman of our Scientific Advisory Board and a member of the American Academy of Orthopaedic Surgeons, the Musculoskeletal Tumor Society and the Pediatric Society Orthopaedic of North America. Dr. Scott maintains an active orthopaedic practice in Salt Lake City and has special expertise in the use of Ilizarov External Fixation, pediatric orthopaedics, bone graft technology, and orthopedic oncology. Dr. Scott has authored many scientific publications, has presented at numerous national conferences and has a patent pending. He received his BA from Linfield College summa cum laude and attended medical school at the University of Colorado. He completed his orthopaedic training at the University of Utah and the Mayo Clinic; he holds a clinical appointment within the Department of Orthopaedics at University of Utah and received an M.B.A. through the University of Utah.

Board Composition and Terms of Office

The composition of our board of directors, and any future audit committee, compensation committee, and nominations and governance committee, will be subject to the corporate governance provisions of our primary trading market, including rules relating to the independence of directors. All directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers are elected annually by the board of directors and serve at the discretion of the board.

Board Committees

We have not previously had an audit committee, compensation committee or nominations and governance committee. Later in 2010, our board of directors expects to create such committees, in compliance with established corporate governance requirements.

Audit Committee. We plan to establish an audit committee of the board of directors. Gary Simon is expected to chair this committee upon its establishment. The audit committee's duties would be to recommend to the board of directors the engagement of independent auditors to audit our financial statements and to review our accounting and auditing principles. The audit committee would review the scope, timing and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. The audit committee would at all times be composed exclusively of directors who are, in the opinion of the board of directors, free from any relationship which would interfere with the exercise of independent judgment as a committee member and who possess an understanding of financial statements and generally accepted accounting principles.

Compensation Committee. We plan to establish a compensation committee of the board of directors. Ken Calligar is expected to chair this committee upon its establishment. The compensation committee would review and approve our salary and benefits policies, including compensation of executive officers. The compensation committee would also administer our equity incentive plan, and recommend and approve awards, including grants of stock options and restricted stock, under that plan.

Nominations and Governance Committee. We plan to establish a nominations and governance committee of the board of directors. Daniel Frank is expected to chair this committee upon its establishment. The purpose of the nominations and governance committee would be to select, or recommend for our entire board's selection, the individuals to stand for election as directors at the annual meeting of stockholders and to oversee the selection and composition of committees of our board. The nominations and governance committee's duties would also include considering the adequacy of our corporate governance and overseeing and approving management continuity planning processes.

Nominations to the Board of Directors

Our directors take a critical role in guiding our strategic direction and oversee the management of our company. Board candidates are considered based upon various criteria, such as their broad-based business and professional skills and experiences, a global business and social perspective, concern for the long-term interests of the stockholders, diversity, and personal integrity and judgment.

In addition, directors must have time available to devote to board activities and to enhance their knowledge in the growing business. Accordingly, we seek to attract and retain highly qualified directors who have sufficient time to attend to their substantial duties and responsibilities.

Indebtedness of Directors and Executive Officers

We have a note receivable from Guy Cook, our Chairman, Chief Executive Officer and President, in the principal amount of $72,178, which bears interest at the prime rate of interest and is secured by certain shares of our common stock owned by Mr. Cook.

We have a promissory note due to Mitchell T. Godfrey, our director and our Secretary and Treasurer, in the principal amount of $83,090, which bears interest at 6% per annum with an unspecified maturity date.

Family Relationships

There are no family relationships among our new directors and executive officers and any former or proposed directors or executive officers.

Legal Proceedings

As of the date of this current report, there are no material proceedings pending or threatened to which any of our directors, executive officers, affiliates or stockholders is or would be a party adverse to us.

Executive Compensation

The table below summarizes the compensation earned for services rendered to Bacterin International Holdings, Inc. f/ka/ K-Kitz, Inc. and Bacterin International, Inc. in all capacities, for the fiscal years indicated, by its Chief Executive Officer and two most highly-compensated officers other than the Chief Executive Officer.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Guy S. Cook(1)	2009	$ 230,750	$ --	$ 40,000(2)	$ --	$ --	$ --	$ 34,897(2)	$ 305,647
Chairman of the Board and Chief Executive Officer	2008	249,210	--	--	--	--	--	23,783	272,993
Jesus Hernandez(1)	2009	236,153	--	--	--	--	--	12,743	248,896
EVP - Biologics	2008	197,308	27,500	--	--	--	--	66,983	236,791
Darrel Holmes(1)	2009	100,000	--	--	--	--	--	15,744	115,744
EVP - Medical Devices	2008	57,115	--	--	--	--	--	9,040	66,155
Jennifer Jarvis	2009	--	--	--	--	--	--	--	--
Former Director, Chief Executive Officer, President and Chief Financial Officer(3)	2008	45,000	--	--	--	--	--	--	45,000

(1) Each of Mr. Cook, Mr. Hernandez and Mr. Holmes received this compensation in connection with their service to Bacterin, our wholly-owned subsidiary through which we now operate our business.

(2) Mr. Cook received 25,000 shares of common stock of Bacterin (as adjusted to reflect the ratio used to determine the number of shares issuable to Bacterin stockholders in connection with the Reverse Merger) and is entitled to $10,000, each as of December 31, 2009, for his service on Bacterin's board of directors for fiscal year 2009, though payment of the $10,000 has been deferred indefinitely. Although this consideration reflects Bacterin's past board compensation policy, it does not reflect our current board compensation policy, which is discussed below.

(3) Ms. Jarvis resigned from her position as a director and our Chief Executive Officer, President and Chief Financial Officer, effective June 30, 2010.

The aggregate amount of benefits in each of the years indicated did not exceed the lesser of $50,000 or 10% of the compensation of any named officer.

Employment Agreements

We do not currently have any employment agreements with our executive officers and do not intend to enter into any such agreements in the near term. We intend to keep the current employment agreements between Bacterin, our wholly-owned subsidiary through which we now conduct our business, and Guy Cook, Mitchell Godfrey, John P. Gandolfo, Jesus Hernandez and Darrel Holmes. The employment agreements are set forth in Item 9.01 of this report. The employment agreements require each of the executives to perform such duties as are customarily performed by one holding their positions, which are President and Chief Executive Officer, Secretary and Treasurer, Interim Chief Financial Officer, Executive Vice President - Biologics Division and Executive Vice President - Medical Devices Division, respectively. The employment agreements for each of the above officers are for an indefinite term and provide that each of Messrs. Cook, Godfrey, Gandolfo, Hernandez and Holmes receive a fixed annual base salary during the term of the employment agreement. In addition, each executive is entitled to (a) receive certain cash bonuses as set forth in their respective employment agreements or as may be determined in the future by our compensation committee of our board of directors (or the entire board until such committee has been established) and (b) participate in our equity incentive plan.

The employment agreements are essentially terminable at will by reference to the termination procedures set forth in Bacterin's employee manual but also provide for termination of an executive's employment without any further obligation of our company upon the disability of the executive for a period of 30 days or more during any calendar year.

The employment agreements also contain covenants (a) restricting the executive from engaging in any activity competitive with our business during the term of the employment agreement, (b) prohibiting the executive from disclosing confidential information regarding our company, and (c) requiring that all intellectual property developed by the executive and relating to our business constitutes our sole and exclusive property. The officers also entered into lock-up agreements restricting the sale of their shares of our common stock over an initial period of time following the closing of the private placement.

Bacterin International Equity Incentive Plan

Prior to the consummation of the Reverse Merger, we adopted and ratified the Bacterin International Equity Incentive Plan. The following is a summary of the material terms of that plan.

The purpose of the incentive compensation plan is to enable us to attract, retain and motivate key employees, directors and, on occasion, independent consultants, by providing them with stock options and restricted stock grants. Stock options granted under the incentive compensation plan may be either incentive stock options to employees, as defined in Section 422A of the Internal Revenue Code of 1986, or non-qualified stock options. The plan is currently administered by our board of directors but will be administered by our compensation committee once such committee has been established. The administrator of the plan has the power to determine the terms of any stock options granted under the incentive plan, including the exercise price, the number of shares subject to the stock option and conditions of exercise. Stock options granted under the incentive plan are generally not transferable, vest in installments and are exercisable during the lifetime of the optionee only by such optionee. The exercise price of all incentive stock options granted under the incentive plan must be at least equal to the fair market value of the shares of common stock on the date of the grant. The specific terms of each stock option grant will be reflected in a written stock option agreement.

Also, 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; provided, that the number of shares which may be purchased under such substitute options and the exercise prices therefor reflect proportional adjustments required to be made to account for the ratio used in determining the number of shares issuable to Bacterin stockholders in connection with the Reverse Merger.

There are 6,000,000 shares of our common stock authorized to be issued under the plan, representing approximately 17.4% of our outstanding common stock or 13.3% on a fully-diluted basis. As of June 30, 2010, we had outstanding options to purchase 4,213,196 shares granted to employees and executives (at exercise prices ranging from $0.104 to $2.60 per share), leaving an additional 1,786,804 available for issuance thereunder. The outstanding options reflect substitute options to be granted to former holders of Bacterin options issued under its 2004 Stock Incentive Plan, as amended.

Except for the Equity Incentive Plan discussed above, we have not had a stock option plan or other similar incentive compensation plan for officers, directors and employees, and no stock options, restricted stock or stock appreciation rights grants were granted or were outstanding at any time prior to the Reverse Merger.

Outstanding Equity Awards at Fiscal Year-End (December 31, 2009)

	Option Awards				
	Number of Securities Underlying Unexercised Options		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned	Option Exercise	Option Expiration
Name	Exercisable	Unexercisable	Options	Price	Date
Guy Cook	--	--	--	--	--
Jesus Hernandez(1)	480,000	--	--	$ 1.396	10/10/16
Jesus Hernandez(1)	55,680	--	--	$ 1.667	5/19/15
Darrrel Holmes(2)	43,200			$ 0.104	10/9/13
Darrrel Holmes(2)	28,800			$ 1.396	10/9/16
Darrrel Holmes(2)	17,556		54,444	$ 1.563	12/29/18

(1) In connection with the Reverse Merger, Mr. Hernandez will receive substitute options to purchase 535,680 shares of our common stock under the Bacterin International Equity Incentive Plan in replacement of his current options to purchase 1,000,000 shares of Bacterin's common stock at $0.67 per share and 116,000 shares at $0.80 per share under Bacterin's 2004 Stock Incentive Plan, as amended. The change in the number of option shares and exercise price reflects proportional adjustments required to be made to reflect the ratio used to determine the number of shares issuable to Bacterin stockholders in connection with the Reverse Merger.

(2) In connection with the Reverse Merger, Mr. Holmes will receive substitute options to purchase an aggregate of 144,000 shares of our common stock under the Bacterin International Equity Incentive Plan in replacement of his current options to purchase 90,000 shares of Bacterin's common stock at $0.05 per share, 60,000 shares at $0.67 per share, and 150,000 shares at $0.75 per share under Bacterin's 2004 Stock Incentive Plan, as amended. The change in the number of option shares and exercise price reflects proportional adjustments required to be made to reflect the ratio used to determine the number of shares issuable to Bacterin stockholders in connection with the Reverse Merger. 11,244 of the unvested options vest on December 29, 2010, 14,400 vest on December 29, 2011, 14,400 vest on December 29, 2012, and 14,400 vest on December 29, 2013.

Potential Payments Upon Termination or Change-in-Control

SEC regulations state that we must disclose information regarding agreements, plans or arrangements that provide for payments or benefits to our named executive officers in connection with any termination of employment or change in control of the company. We currently have no employment agreements with any of our named executive officers, nor any compensatory plans or arrangements that provide for any payments or benefits upon the resignation, retirement or any other termination of any of our named executive officers, as the result of a change in control, or from a change in any named executive officer's responsibilities following a change in control.

Director Compensation

Name	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Mitch Godfrey	$ 10,000	$ 40,000	--	--	--	--	$ 50,000
Kent Swanson	$ 10,000	$ 40,000	--	--	--	--	$ 50,000
Steve Warnecke(3)	$ 10,000	$ 40,000	--	--	--	--	$ 50,000

(1) Each of Bacterin's directors, regardless of management affiliation, earned $10,000 for their service on Bacterin's board of directors during 2009 although payment of such amount has been indefinitely deferred.

(2) Each of Bacterin's directors, regardless of management affiliation, received 50,000 shares of common stock as of December 31, 2009, for their service on Bacterin's board of directors during 2009.

(3) Mr. Warnecke resigned as a director effective May 22, 2010.

We are currently re-evaluating our director compensation policies and intend to adopt new ones shortly. We expect that such new policies will, among other things, entitle each non-management director to receive participation fees for attendance at regular and special meetings of our board of directors and stock options granted under our Bacterin International Equity Incentive Plan, to purchase shares of our common stock with an exercise price equal to the fair market value of such stock on the date of grant. Our board of directors will review director compensation annually and adjust it according to prevailing market conditions and good business practices.

Compensation Committee Interlocks and Insider Participation

No interlocking relationship exists between our board of directors and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

Certain Relationships and Transactions

Guy Cook, our President and Chief Executive Officer, serves as a board member of West Coast Tissue Services and American Donor Services. Both of these entities recover tissue from donors. We reimburse them for their recovery fees, which are comprised primarily of labor costs. The aggregate amount of all payments we and our subsidiaries made to these entities since January 1, 2008 is $575,297.27 to West Coast Tissue Services, and $1,654,352.00 to American Donor Services. This relationship benefits us, and thus Mr. Cook, as these entities provide us with donors, thus insuring that we have a pipeline of current and future donors, which is necessary to our success. Mr. Cook's wife performs the bookkeeping and accounting for American Donor Services. She was paid $60,126 in 2009 for her services, but received no compensation in 2006-2008 or 2010 for her services.

Concurrently with the closing of the Reverse Merger and the private placement, we repurchased and cancelled, 4,319,404 shares of our common stock from Jennifer Jarvis, our former director, chief executive officer and chief financial officer, for aggregate consideration of $100 and certain other good and valuable consideration.

Although we have not adopted a Code of Ethics at this time, we rely on our board to review related party transactions on an ongoing basis to prevent conflicts of interest. Our board reviews a transaction in light of the affiliations of the director, officer or employee and the affiliations of such person's immediate family. Transactions are presented to our board for approval before they are entered into or, if this is not possible, for ratification after the transaction has occurred. If our board finds that a conflict of interest exists, then it will determine the appropriate remedial action, if any. Our board approves or ratifies a transaction if it determines that the transaction is consistent with the best interests of our company. These policies and procedures are not evidenced in writing.

Director Independence

During the year ended December 31, 2009, we did not have any independent directors on our board. We evaluate independence by the standards for director independence established by applicable laws, rules, and listing standards including, without limitation, the standards for independent directors established by the NASDAQ stock market.

Subject to some exceptions, these standards generally provide that a director will not be independent if:

- the director is, or in the past three years has been, an employee of ours;
- a member of the director's immediate family is, or in the past three years has been, an executive officer of ours;
- the director or a member of the director's immediate family has received more than $120,000 per year in direct compensation from us other than for service as a director (or for a family member, as a non-executive employee);
- the director or a member of the director's immediate family is, or in the past three years has been, employed in a professional capacity by our independent public accountants, or has worked for such firm in any capacity on our audit;
- the director or a member of the director's immediate family is, or in the past three years has been, employed as an executive officer of a company where one of our executive officers serves on the compensation committee; or
- the director or a member of the director's immediate family is an executive officer of a company that makes payments to, or receives payments from, us in an amount which, in any twelve-month period during the past three years, exceeds the greater of $1,000,000 or two percent of that other company's consolidated gross revenues.

Description of Securities

Common Stock

The holders of our common stock are entitled to one vote per share. Our certificate of incorporation does not provide for cumulative voting. The holders of our common stock are entitled to receive ratably such dividends, if any, as may be declared by our board of directors out of legally available funds. However, the current policy of our board of directors is to retain earnings, if any, for our operation and expansion. Upon our liquidation, dissolution or winding-up, the holders of our common stock are entitled to share ratably in all of our assets which are legally available for distribution, after payment of or provision for all liabilities and the preferences of any then outstanding shares of preferred stock. The holders of our common stock have no preemptive, subscription, redemption or conversion rights. All issued and outstanding shares of our common stock are, and the common stock reserved for issuance upon exercise of the warrants will be, when issued, fully-paid and non-assessable.

Preferred Stock

Our certificate of incorporation authorizes the issuance of up to 5,000,000 shares of “blank check” preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors. We have not designated or issued any shares of our preferred stock to date.

Warrants

We issued warrants to purchase approximately 1,485,259 shares of our common stock in the initial closing of the private placement, including warrants to purchase 251,625 shares of our common stock that was issued to the placement agents. Each warrant acquired in the private placement entitles the holder thereof to purchase shares of our common stock at an exercise price of $2.50 per share from the date of issuance until the fifth anniversary thereof; provided, that note holders who converted debt in the private placement, received warrants with an exercise price of $2.25 per share and the placement agents received warrants with an exercise price of $1.60 per share.

In addition, subject to adjustment for the ratio used to determine the number of shares issuable to Bacterin stockholders in connection with the Reverse Merger, we have assumed Bacterin's obligations under its outstanding warrants immediately prior to the Reverse Merger and are in the process of issuing substitute warrants. As a result of such assumption and issuance of substitute warrants, we also have warrants outstanding to purchase approximately 4,879,075 shares of our common stock. The exercise prices of these warrants range from $2.08 to $2.60 and commence expiring in March 2014 through December 2019.

Transfer, Exchange and Exercise. The warrants may be exercised upon surrender of the certificate therefor on or prior to the expiration date (as explained below) at our offices with the form of exercise notice attached as an exhibit thereto filled out and executed as indicated, accompanied by payment (in the form of certified or cashier's check payable to the order of our company) of the full exercise price for the number of warrants being exercised.

Adjustments. All of our outstanding warrants contain provisions that protect the holders thereof against dilution by adjustment of the number of shares for which the warrants are exercisable as well as the exercise price to purchase such shares in certain events, such as stock dividends, stock splits, mergers and other similar events.

In addition, the warrants that were issued in connection with our recent bridge financings provide that, in the event that we issue any shares of our common stock (or securities convertible into or exercisable or exchangeable for shares of common stock) for an effective price of less than $1.60 per share of common stock, except (i) securities which are issued pursuant to the bridge financings, (ii) shares of our common stock or options to purchase such shares issued to employees, consultants, officers or directors in accordance with stock plans approved by the board of directors, and shares of common stock issuable under options or warrants that are outstanding as of the date of the closing of the bridge financings or issued in the future pursuant to the our equity incentive plan up to a total of 6,000,000 shares, and (iii) shares of our common stock issued pursuant to a stock dividend, split or other similar transaction, the exercise price of each warrant shall be adjusted downward on a "full-ratchet" basis, i.e., to the lowest price per share at which our stock was issued or deemed issued, regardless of how many shares were issued at such price. The holder of a Warrant will not possess any rights as a stockholder of our company unless and until he exercises the Warrant.

Cashless Exercise. The warrants issued in connection with our recent bridge financings and the private placement contain "cashless" exercise provisions. In a "cashless" exercise, a warrant is exchanged for a lesser number of shares because a portion of the shares is used to pay the exercise price.

Stockholder Rights. The warrants do not confer upon holders any voting or any other rights as a stockholder of our company.

The foregoing discussion of our warrants, to the extent it relates to the warrants issued in the private placement, is qualified entirely by reference to the composite form of the warrant used in such private placement and included as an exhibit to this current report.

Registration Rights

We have agreed to use our best efforts to file a shelf registration statement on Form S-1 with the 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 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 eighteen (18) months anniversary of the sale of the securities. 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. We will bear the expenses in connection with the registration of these shares (exclusive of any underwriting discounts and commissions, if any).

If, at any time or from time to time after the date of the effectiveness of the registration statement, we determine good faith, following consultation with legal counsel, that (i) it would be detrimental to us and our stockholders for resales of the registered securities to be made pursuant to a registration statement due to the existence of a material development or potential material development involving us that we would be obligated to disclose in a registration statement, which disclosure would be premature or otherwise inadvisable at such time or would have a material adverse effect upon us and our stockholders, or (ii) such material development or potential material development involving us would adversely affect or require premature disclosure of the filing of a registration by us of any class of our equity securities, then we have the right to suspend offers and sales of the registered securities pursuant to a registration statement for a period of not more than 30 calendar days in any 12 month period, but only if we reasonably conclude, after consultation with outside legal counsel, that the failure to suspend the use of the registration statement would create a material liability or violation under applicable securities laws or regulations.

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.

Other Rights To Acquire Our Common Stock

We are contractually obligated to issue shares of our common stock to one of our stockholders as follows:

- if, after seven months from the closing of the Reverse Merger and the private placement, our common stock is publicly trading at an average daily closing price of $1.60 per share for the 30 days immediately preceding the last day of such seven month period, we must issue to such stockholder 375,000 shares of our common stock;

- if, after 13 months from the closing of the Reverse Merger and the private placement, our common stock is publicly trading at an average daily closing price of $1.60 per share for the 30 days immediately preceding the last day of such thirteen month period, we must issue to such stockholder 375,000 additional shares of our common stock; and

- if, after 13 months from the closing of the Reverse Merger and the private placement, our common stock is publicly trading at an average daily closing price of $2.40 per share for the 30 days immediately preceding the last day of such thirteen month period, we must issue to such stockholder 375,000 additional shares of our common stock (which shares, for the sake of clarification, shall be in addition to the shares to be issued pursuant to the second bullet point above).

Market Price and Dividends on Common Equity and Related Stockholder Matters

Trading Information

Our common stock will trade in the over-the-counter market and will be quoted on the OTC Bulletin Board under the trading symbol KKTZ.OB until such time as we have received a new symbol. The trading market for our common stock has been extremely limited and sporadic.

We intend to apply to list our common stock for trading on the Nasdaq Capital Market as soon as reasonably practicable. No assurance can be given that we will satisfy the initial listing requirements, or that our shares of common stock will ever be listed on Nasdaq or another national securities exchange.

The warrants will not be registered or listed for trading.

Transfer Agent

Our current transfer agent and registrar for our common stock is Globex Transfer, LLC, Deltona, Florida. We will serve as warrant agent for the Warrants.

Holders of Record

As of June 30, 2010, there were approximately 324 holders of record of our common stock.

Dividends

We have not paid any dividends on our common stock and we do not intend to pay any dividends on our common stock in the foreseeable future.

Indemnification of Directors and Officers

Our certificate of incorporation provides that no director of the company will be personally liable to the company or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the company or our stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for the improper declaration of dividends or redemption of shares of capital stock in violation of Delaware law, or (iv) for any transaction from which the director derived an improper personal benefit.

We have been advised that it is the position of the SEC that insofar as the foregoing provisions may be invoked to disclaim liability for damages arising under the Securities Act of 1933, as amended, that such provisions are against public policy as expressed in the Securities Act and are therefore unenforceable.

Item 3.02. Unregistered Sales of Equity Securities.

Reverse Merger. On June 30, 2010, 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 of our common stock issued to former holders of Bacterin's common stock in connection with the exchange transaction were exempt from registration under Section 4(2) of the Securities Act of 1933 as a sale by an issuer not involving a public offering and under Regulation D promulgated pursuant to the Securities Act of 1933. These shares of common stock were not registered under the Securities Act, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws, which exempts transactions by an issuer not involving any public offering. Such securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements and certificates evidencing such shares contain or, upon issuance will contain, a legend stating the same.

Private Placement. Concurrently with the closing of the Reverse Merger, we completed the initial closing of a private placement to certain institutional investors and accredited individuals of shares of our common stock and warrants to purchase additional shares of our common stock. 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. In total, we sold 4,934,534 shares of our common stock and warrants to purchase an aggregate of up to 1,233,634 shares of common stock, including the conversion of debt in the private placement by note holders and excluding warrants issued to the placement agent. We received gross proceeds of $7,508,329, including from the conversion of debt, in consideration for the sale of the shares and warrants.

The shares of common stock and warrants issued in the private placement were exempt from registration under Section 4(2) of the Securities Act of 1933 as a sale by an issuer not involving a public offering and under Regulation D promulgated pursuant to the Securities Act of 1933, as amended. The shares of common stock and warrants were not registered under the Securities Act, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws, which exempts transactions by an issuer not involving any public offering. Such securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements and certificates evidencing such securities contain a legend stating the same.

Transaction Fees and Use of Proceeds. We have assumed Bacterin's agreement to pay the lead placement agent, Middlebury Securities, LLC, and any sub-placement agents, in total, (i) a cash fee equal to 8% of the aggregate gross cash proceeds received in the private placement, (ii) warrants to purchase that number of shares of our common stock equal to 10% of the shares of common stock purchased in the private placement, at an exercise price of $1.60 per share, and (iii) shares of our common stock equal to 2% of the shares of common stock purchased in the private placement for cash and acquired through the conversion of $1,250,000 in convertible debt. Except as set forth above, no commission was paid to the placement agents for sales of shares of our common stock or warrants upon the conversion of the debt held by note holders from Bacterin's bridge financings. Additionally, we paid auditing fees of approximately $86,000, and legal fees for us, Bacterin and the investors in the Reverse Merger and private placement of approximately $340,000.

The net proceeds will be used to pay certain of our debts and provide additional working capital for us. Specifically, the net proceeds of the private placement will be used by us to support sales and marketing, purchase bio-materials and other product components, fund research and development, reduce existing trade payables and other liabilities, repay notes payable, pay the costs associated with the Reverse Merger and the private placement (including the future costs of registering the Company's common shares under the Securities Act and on-going public company costs) and for working capital and general corporate purposes.

The amount of our actual expenditures will depend upon numerous factors, including the pace with which we can commercially deploy our products. Actual expenditures may vary substantially and we may find it necessary or advisable to reallocate the net proceeds for other purposes. Pending application of the net proceeds as described above, we intend to invest the net proceeds of from the private placement in short-term, interest-bearing securities.

Item 5.01. Changes in Control of Registrant.

The information set forth above in Items 1.01 and 2.01 of this report is incorporated herein by reference in its entirety.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

The information set forth above in Items 1.01 and 2.01 of this report is incorporated herein by reference in its entirety.

Item 5.03. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

The information set forth above in Items 1.01 and 2.01 of this report is incorporated herein by reference in its entirety.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The financial statements of Bacterin for the 12 months ended December 31, 2009 and 2008 and for the three months ended March 31, 2010 and 2009 (unaudited) are incorporated herein by reference to Exhibits 99.1 and 99.2, respectively, to this current report.

(b) Pro Forma Financial Information.

Our unaudited pro forma condensed combined financial statements as of and for the three months ended March 31, 2010 and the 12 months ended December 31, 2009 are incorporated herein by reference to Exhibit 99.3 to this report, and are based on the historical financial statements of our company and Bacterin after giving effect to the Reverse Merger. The unaudited pro forma combined condensed balance sheet as of March 31, 2010 is presented to give effect to the Reverse Merger as if it occurred on April 1, 2010. The unaudited pro forma combined condensed statement of operations of our company and Bacterin for the three months ended March 31, 2010 and the 12 months ended December 31, 2009 are presented as if the combination had taken place on April 1, 2010.

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. 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 is considered the acquiror for accounting purposes and will account for the Reverse Merger as a reverse acquisition.

Reclassifications have been made to the company’s historical financial statements to conform to Bacterin’s historical financial statement presentation.

The unaudited pro forma combined condensed financial statements should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth under Item 2.01 of this current report, which disclosure is incorporated herein by reference, and the historical consolidated financial statements and accompanying notes of our company and Bacterin. The unaudited pro forma combined condensed financial statements are not intended to represent or be indicative of our consolidated results of operations or financial condition that would have been reported had the Reverse Merger been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial condition of our company.

(d) Exhibits.

The exhibits listed in the following Exhibit Index are filed as part of this current report.

Exhibit No	Description
2.1*	Agreement and Plan of Merger, dated as of June 30, 2010, by and among K-Kitz, Inc., KB Merger Sub, Inc. and Bacterin International, Inc.
3.1*	Certificate of Incorporation, including all amendments to date
3.2(a)	Amendment No. 1 to Bylaws, dated May 24, 2010
3.2(b)**	Bylaws, including all amendments to date except the amendment set forth at Exhibit 3.2(a) hereto
4.1*	Form of Warrant to Purchase Common Stock.
10.1*	Form of Private Placement Subscription Agreement to purchase Shares and Warrants.

10.2	Form of Registration Rights Agreement
10.3	Form of Management Lock-Up Agreement for the officers and directors of Bacterin International Holdings, Inc. and Bacterin International, Inc.
10.4	Form of Indemnification Agreement for the officers and directors of Bacterin International Holdings, Inc. and Bacterin International, Inc.
10.5	Bacterin International Equity Incentive Plan.
10.6	Guy Cook Employment Agreement
10.7	Mitchell Godfrey Employment Agreement
10.8	John Gandolfo Employment Agreement
10.9	Jesus Hernandez Employment Agreement
10.10	Darrel Holmes Employment Agreement
21.1	Subsidiaries of Bacterin, Inc.
99.1	Financial statements of Bacterin International, Inc. as of and for the 12 months ended December 31, 2009 and 2008.
99.2	Financial statements of Bacterin International, Inc. as of and for the three months ended March 31, 2010 and 2009 (unaudited).
99.3	Unaudited pro forma condensed combined financial statements of K-Kitz, Inc. and Bacterin International, Inc. as of and for the three months ended March 31, 2010 and the 12 months ended December 31, 2009.

* Incorporated herein by reference to the exhibits included with Form 8-K dated June 30, 2010, filed with the SEC on June 30, 2010.

** Incorporated herein by reference to the exhibits included with Registration Statement on Form S-1 (No. 333-158426), declared effective by the U.S. Securities and Exchange Commission on September 29, 2009.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 7, 2010

BACTERIN INTERNATIONAL HOLDINGS, INC.

By: /s/ Guy S. Cook
Guy S. Cook
President and Chief Executive Officer

EXHIBIT 3.2(a)

AMENDMENT NO. 1
TO
THE BYLAWS
OF
K-KITZ, INC.

The Bylaws of K-Kitz, Inc., a Delaware corporation (the "Corporation"), are amended by deleting and restating Article II, Section 1 to read in its entirety as follows:

"Section 1. *Number and qualifications.* The entire Board of Directors shall consist of anywhere from one (1) to nine (9) natural persons, and the exact number thereof shall be determined from time to time by resolution of the Board of Directors. Each member of the Board of Directors shall be of the age and capacity to make binding contractual agreements under Delaware law. The directors need not be shareholders of the Corporation or residents of the State of Delaware."

The foregoing amendment to the Corporation's Bylaws was duly adopted pursuant to written consent resolutions of all of the members of the Board of Directors and the holder of a majority of the outstanding shares of common stock of the Corporation dated May 24, 2010.

* * * *

EXHIBIT 10.2

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement ("Agreement") is entered into as of June ___, 2010, by and among Bacterin International Holdings, Inc., f/k/a K-Kitz, Inc. (the "Company") and the Holders (as defined below).

WITNESSETH:

WHEREAS, the Company has entered into an agreement and plan of merger (the "Merger Agreement") pursuant to which Bacterin International Inc., a Nevada corporation ("Bacterin"), will become a wholly-owned subsidiary of the Company (the "Reverse Merger") and, contingent upon the closing of the Reverse Merger, the Investors have agreed to acquire from the Company (the "Offering"), either for cash or upon conversion of certain existing promissory notes ("Bridge Notes") of Bacterin, (i) shares of Company common stock (the "Common Stock") and (ii) warrants ("Warrants") to purchase additional shares of the Common Stock, subject to the terms and conditions set forth in that certain Subscription Agreement dated on or about June __, 2010 between Bacterin and each of the Investors (the "Subscription Agreement"); and

WHEREAS, it is a condition precedent to the consummation of the transactions contemplated by the Subscription Agreement that the Company execute this Agreement; and

WHEREAS, certain terms used in this Agreement are defined in Section 3 hereof.

NOW, THEREFORE, in consideration of the mutual promises, representations, warranties, covenants and conditions set forth in the Subscription Agreement, the Appendices thereto and the other documents to be entered into and/or delivered in connection therewith (the "Transaction Documents"), the Company and each Holder agree as follows:

1. Certain Definitions. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed thereto in the Subscription Agreement. As used in this Agreement, the following terms shall have the following respective meanings:

"**Closing**" and "**Closing Date**" shall have the meanings ascribed to such terms in the Subscription Agreement.

"**Commission**" or "**SEC**" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"**Demand Registrable Securities**" shall mean (i) the Registrable Securities, (ii) securities issued or issuable in respect of the foregoing upon any stock split, stock dividend, recapitalization or similar event; and (iii) any other security issued as a dividend or other distribution with respect to, in exchange for or in replacement of the securities referred to in the preceding clauses; provided that all such shares shall cease to be Demand Registrable Securities at such time as they have been sold under a Registration Statement or pursuant to Rule 144 under the Securities Act or otherwise or at such time as they are eligible to be sold pursuant to Rule 144(b)(1).

"**Harborview Shareholders**" shall mean The Corbran LLC, Harborview Master Fund, L.P., Harborview Value Master Fund, L.P. and Chex Associates LLC and any permitted transferee or transferees of a Harborview Shareholder's Registrable Securities.

"**Harborview Shares**" shall mean the 1,177,196 shares of common stock of the Company owned in the aggregate by the Harborview Shareholders (which shall be in addition to any other Registrable Securities that may be registered by any of the Harborview Shareholders pursuant to clauses (i), (ii) and (iv) of the definition of Registrable Securities).

"**Holder**" and "**Holders**" shall be used to refer to the Harborview Shareholders, Investors and Placement Agent collectively.

"**Investor**" and "**Investors**" shall include each Investor, the Placement Agent and any permitted transferee or transferees of an Investor's Registrable Securities.

"**Permitted Free Writing Prospectus**" means a free writing prospectus authorized for use by the Company in connection with any offering of Registrable Securities that has been filed with the SEC in accordance with Rule 433 under the Act .

"**Placement Agent**" means Middlebury Securities, LLC and any authorized sub placement agents.

The terms "**register**," "**registered**" and "**registration**" shall refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of the effectiveness of such registration statement.

"**Registrable Securities**" shall mean: (i) the Common Stock or other securities issued or issuable to each Investor and to the Placement Agent or any of their respective permitted transferees or designees (a) in connection with the Offering (including upon conversion or tender of any Bridge Notes), (b) in connection with Investor's exercise of Warrants received in connection with the Offering, (c) in connection with the exercise of warrants received by the Placement Agent pursuant to the placement agent agreement, as amended, between Bacterin and the Placement Agent (the "Placement Agent Agreement"), (d) upon any distribution with respect to, any exchange for or any replacement of, any shares of Common Stock, or (e) upon any conversion, exercise or exchange of any securities issued in connection with any such distribution, exchange or replacement; (ii) securities issued or issuable in respect of the foregoing upon any stock split, stock dividend, recapitalization or similar event; (iii) the Harborview Shares; and (iv) any other security issued as a dividend or other distribution with respect to, in exchange for or in replacement of the securities referred to in the preceding clauses; provided that all such shares shall cease to be Registrable Securities at such time as they have been sold under a Registration Statement or pursuant to Rule 144 under the Securities Act or otherwise or at such time as they are eligible to be sold pursuant to Rule 144(b)(1).

"**Registration Expenses**" shall mean all expenses to be incurred in connection with each Holder's registration rights under this Agreement not included in Selling Expenses, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company and one counsel for the Holders, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company, which shall be paid in any event by the Company).

"**Registration Statement**" shall have the meaning set forth in Section 2(a) herein.

"**Regulation D**" shall mean Regulation D as promulgated pursuant to the Securities Act, and as subsequently amended.

"**Securities Act**" or "**Act**" shall mean the Securities Act of 1933, as amended.

"**Selling Expenses**" shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities or Demand Registrable Securities, as the case may be.

"**Special Counsel**" means the single attorney selected by Holders holding a majority in interest of the Common Stock (which attorney shall be reasonably acceptable to the Company) to represent the Holders' interests in connection with the registrations contemplated by this Agreement.

"**Time of Sale Information**" means any preliminary prospectus together with each Permitted Free Writing Prospectus, if any, used in connection with any offering of Registrable Securities.

2. Registration Requirements. The Company shall use its best efforts to effect the registration of the Registrable Securities (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act) as would permit or facilitate the sale or distribution of all the Registrable Securities in the manner (including manner of sale) and in all states reasonably requested by the Holders. Such best efforts by the Company shall include, without limitation, the following:

(a) The Company shall, as expeditiously as possible after the Closing Date:

(i) But in any event no later than ninety (90) days after the Closing Date (the "Required Filing Date"), prepare and file a registration statement with the Commission pursuant to Rule 415 under the Securities Act ("Rule 415") on Form S-1 or Form S-3 under the Securities Act (or in the event that the Company is ineligible to use such form, such other form as the Company is eligible to use under the Securities Act provided that any other form shall be converted into a Form S-3 as soon as Form S-3 becomes available to the Company) covering resales by the Holders as selling stockholders (not underwriters) of the Registrable Securities (a "Registration Statement") and such additional securities as are permitted under Rule 416 under the Securities Act. The number of shares of Common Stock initially included in such Registration Statement shall be no less than 100% of the maximum number of Registrable Securities. If at any time the Commission takes the position that the offering of some or all of the Registrable Securities in a registration statement is not eligible to be made on a delayed or continuous basis under the provisions of Rule 415 under the Securities Act or requires any Holder to be named as an "underwriter," the Company shall use its best efforts to persuade the Commission that the offering contemplated by the registration statement is a valid secondary offering and not an offering "by or on behalf of the issuer" as defined in Rule 415 and that none of the Holders is an "underwriter." The Holders shall have the right to participate or have their Special Counsel participate in any meetings or discussions with the Commission regarding the Commission's position and to comment or have their Special Counsel comment on any written submission made to the Commission with respect thereto. No such written submission shall be made to the Commission to which the Special Counsel reasonably objects. In the event that, despite the Company's best efforts and compliance with the terms of this Section 2(a)(i), the Commission refuses to alter its position, the Company shall (i) remove from the registration statement such portion of the Registrable Securities (the "Cut Back Shares") and/or (ii) agree to such restrictions and limitations on the registration and resale of the Registrable Securities as the Commission may require to assure the Company's compliance with the requirements of Rule 415 (collectively, the "Commission Restrictions"); provided, however, that the Company shall not agree to name any Holder as an "underwriter" in such registration statement without the prior written consent of such Holder. Thereafter, the Company shall use its best efforts to cause such Registration Statement and other filings to be declared effective, as soon as possible, and in any event no later than the 150th day following the Closing Date (or not later than the 180th day following the Closing Date if the SEC reviews such Registration Statement) (the "Required Effective Date"). In the event that less than all of the Registrable Securities are included in a Registration Statement as a result of the limitations described in this paragraph, then the Company will (i) reduce on a proportionate basis the number of Registrable Securities of each Holder included in such Registration Statement and (ii) file additional Registration Statements, each registering the maximum number of Cut Back Shares permitted as a result of Commission Restrictions, seriatim, until all of the Registrable Securities have been registered. The Required Filing Date and the Required Effective Date of each such additional Registration Statement shall be thirty (30) days and ninety (90) days, respectively, after the first day such Registration Statement may be filed without objection by the SEC based on Rule 415. Without limiting the foregoing, the Company will promptly respond to all SEC comments, inquiries and requests, and shall request acceleration of effectiveness at the earliest possible date.

(ii) Prepare and file with the SEC such amendments and supplements to such Registration Statement and the prospectus used in connection with such Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement and notify the Holders of the filing and effectiveness of such Registration Statement and any amendments or supplements.

(iii) Furnish to each Holder that has Registrable Securities included in a Registration Statement such numbers of copies of a current prospectus conforming with the requirements of the Securities Act, copies of such Registration Statement, any amendment or supplement thereto and any documents incorporated by reference therein and such other documents as such Holder may reasonably require in order to facilitate the disposition of Registrable Securities owned by such Holder.

(iv) Register and qualify the securities covered by such Registration Statement under the securities or "Blue Sky" laws of all U.S. domestic jurisdictions; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) Notify promptly each Holder that has Registrable Securities included in a Registration Statement of the happening of any event (but not the substance or details of any such event) of which the Company has knowledge as a result of which the prospectus (including any supplements thereto or thereof) included in such Registration Statement, as then in effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing (each an "Event"), and use its best efforts to promptly update and/or correct such prospectus. Each Holder will hold in confidence and will not make any disclosure of any such Event and any related information disclosed by the Company.

(vi) Notify each Holder of the issuance by the Commission or any state securities commission or agency of any stop order suspending the effectiveness of any Registration Statement or the threat or initiation of any proceedings for that purpose. The Company shall use its best efforts to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible time.

(vii) List the Registrable Securities covered by such Registration Statement with all securities exchange(s) and/or markets on which the Common Stock is then listed and prepare and file any required filings with any exchange or market where the Common Shares are traded.

(viii) Take all steps reasonably necessary to enable Holders to avail themselves of the prospectus delivery mechanism set forth in Rule 153 (or successor thereto) under the Act.

(b) Notwithstanding the obligations under Section 2(a)(v) or any other provision of this Agreement, if (i) in the good faith judgment of the Company, following consultation with legal counsel, it would be detrimental to the Company and its stockholders for resales of Registrable Securities to be made pursuant to a Registration Statement due to the existence of a material development or potential material development involving the Company that the Company would be obligated to disclose in the Registration Statement, which disclosure would be premature or otherwise inadvisable at such time or would have a material adverse effect upon the Company and its stockholders, or (ii) in the good faith judgment of the Company, it would adversely affect or require premature disclosure of the filing of a Company-initiated registration of any class of its equity securities, then the Company will have the right to suspend the use of the Registration Statement for one period of not more than 30 calendar days in any 12 month period, but only if the Company reasonably concludes, after consultation with outside legal counsel, that the failure to suspend the use of the Registration Statement as such would create a material liability or violation under applicable securities laws or regulations.

(c) Set forth below in this Section 2(c) are (I) events that may arise that the Holders consider will interfere with the full enjoyment of their rights under this Agreement, the Subscription Agreement and the other Transaction Documents (the "Interfering Events"), and (II) certain remedies applicable in each of these events.

(i) Payments by the Company. If (i) at any time after effectiveness of a Registration Statement, sales thereunder during the registration period (as described in Section 6) cannot be made for any reason, other than by reason of the operation of Section 2(b), for a period of more than 30 consecutive business days, (ii) at any time after effectiveness of the Registration Statement, sales thereunder during the registration period cannot be made for a period of time that exceeds the limitations set forth in Section 2(b), or (iii) at any time after the Registrable Securities are listed in accordance with Section 2(a)(vii), for a period of more than 30 consecutive calendar days the Common Stock is not listed or included for quotation on the OTC Bulletin Board or, if the Common Stock is then listed or traded on a U.S. national securities exchange, such securities exchange where the Common Stock is then traded, then the Company will make a payment as liquidated damages to each Holder as set forth below. The amount of the payment made to each Holder will be equal to 1% of the Purchase Price (defined below) paid for (i) the shares of Common Stock then held by the Holder and (ii) shares of Common Stock obtained upon exercise of the Warrants, for each 30 calendar days that sales cannot be made under an effective Registration Statement or the Shares are not listed or included for quotation on the OTC Bulletin Board or other exchange or market where the Common Stock is then traded (but any day on which both conditions exist shall count as a single day and no day taken into account for purposes of determining whether any payment is due under Section 2 (c)(ii) shall be taken into account for purposes of determining whether any payment is due under this Section 2(c)(i) or the amount of such payment). The number of shares of Common Stock held for purposes of clause (ii) of the preceding sentence shall be determined as of the end of the respective 30-day period. In no event shall payments pursuant to this Section exceed 12% in the aggregate of the Purchase Price paid for the shares of Common Stock purchased in the Offering for the entire registration period (as described in Section 6). For purposes of this Section, the Purchase Price of shares of Common Stock acquired upon conversion or tender of Bridge Notes shall be the principal amount plus accrued and unpaid interest deemed to have been tendered or converted. These payments will be prorated on a daily basis during the 30-day period and will be paid to each Holder within ten business days following the end of each 30-day period as to which payment is due hereunder. The Holders may make a claim for additional damages as a remedy for the Company's failure to comply with the timelines set forth in this Section, but acknowledgement of such right in this Agreement shall not constitute an admission by the Company that any such damages exist or may exist. Nothing contained in the preceding sentence shall be read to limit the ability of the Holders to seek specific performance of this Agreement.

(ii) Effect of Late Registration. Subject to the last sentence of this Section 2(c)(ii), if any Registration Statement has not been filed by the Required Filing Date or declared effective by the Required Effective Date other than by reason of the operation of Section 2(b), then the Company will make a payment to each Holder as liquidated damages for such delay (each a "Late Registration Payment"). Each Late Registration Payment will be equal to 1% of the Purchase Price paid for (i) the shares of Common Stock then held by the Holder and (ii) shares of Common Stock obtained upon exercise of the Warrants for the first 30 calendar days after the Required Filing Date or Required Effective Date, as applicable, and 1% of such Purchase Price for each period of 30 calendar days thereafter (but no day taken into account for purposes of determining whether any payment is due under Section 2(c)(i) shall be taken into account for purposes of determining whether any payment is due under this Section 2(c)(ii) or the amount of such payment). In no event shall payment pursuant to this Section exceed 12% in the aggregate of the Purchase Price paid for (i) the shares of Common Stock and (ii) shares obtained upon exercise of the Warrants (including such Holder's predecessors and successors), as applicable, for the entire registration period (as described in Section 6). The Late Registration Payments will be prorated on a daily basis during the 30-day period and will be paid to the Holders within ten business days following the end of each 30-day period as to which payment is due hereunder. The Holders may make a claim for additional damages as a remedy for the Company's failure to comply with the timelines set forth in this Section, but acknowledgement of such right in this Agreement shall not constitute an admission by the Company that any such damages exist or may exist. Nothing contained in the preceding sentence shall be read to limit the ability of the Holders to seek specific performance of this Agreement. Notwithstanding the foregoing, no penalties shall be payable by the Company with respect to the Registrable Securities which are not covered by an effective Registration Statement if the sole reason for such failure is the application of Rule 415 by the SEC; provided, however, that the Company shall use commercially reasonable efforts to cause such Registration Statement to be declared effective. For purposes of Section 2(c) of this Agreement, "Purchase Price" shall mean $0.80 per share regardless of the actual price per share paid by Holder.

(d) During the registration period, the Company will make available, upon reasonable advance notice during normal business hours, for inspection by any Holder whose Registrable Securities are being sold pursuant to a Registration Statement, all pertinent financial and other records, pertinent corporate documents and properties of the Company (collectively, the "Records") as reasonably necessary to enable each such Holder to exercise its due diligence responsibility in connection with or related to the contemplated offering. The Company will cause its officers, directors and employees to supply all information that any Holder may reasonably request for purposes of performing such due diligence.

(e) Each Holder will hold in confidence, use only in connection with the contemplated offering and not make any disclosure of all Records and other information that the Company determines in good faith to be confidential, and of which determination the Holders are so notified, unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in any Registration Statement, (ii) the release of such Records is ordered pursuant to a subpoena or other order from a court or government body of competent jurisdiction, (iii) the information in such Records has been made generally available to the public other than by disclosure in violation of this or any other agreement (to the knowledge of the relevant Holder), (iv) the Records or other information were developed independently by the Holder without breach of this Agreement, (v) the information was known to the Holder before receipt of such information from the Company, or (vi) the information was disclosed to the Holder by a third party not under an obligation of confidentiality. However, a Holder may make disclosure of such Records and other information to any attorney, adviser, or other third party retained by it that needs to know the information as determined in good faith by the Holder (the "Holder Representative"), if the Holder advises the Holder Representative of the confidentiality provisions of this Section 2(e), but the Holder will be liable for any act or omission of any of its Holder Representatives relative to such information as if the act or omission was that of the Holder. The Company is not required to disclose any confidential information in the Records to any Holder unless and until such Holder has entered into a confidentiality agreement (in form and substance satisfactory to the Company) with the Company with respect thereto, substantially to the effect of this Section 2(e). Unless legally prohibited from so doing, each Holder will, upon learning that disclosure of Records containing confidential information is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Company and allow the Company, at the Company's expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the Records deemed confidential. Nothing herein will be deemed to limit the Holder's ability to sell Registrable Securities in a manner that is otherwise consistent with applicable laws and regulations.

(f) The Company shall file a Registration Statement with respect to any newly authorized and/or reserved Registrable Securities consisting of Shares described in clause (i) of the definition of Registrable Securities within ten (10) business days of any stockholders' meeting authorizing same and shall use its best efforts to cause such Registration Statement to become effective within ninety (90) days of such stockholders' meeting. If the Holders become entitled, pursuant to an event described in clause (ii) and (iii) of the definition of Registrable Securities, to receive any securities in respect of Registrable Securities that were already included in a Registration Statement, subsequent to the date such Registration Statement is declared effective, and the Company is unable under the securities laws to add such securities to the then effective Registration Statement, the Company shall promptly file, in accordance with the procedures set forth herein, an additional Registration Statement with respect to such newly Registrable Securities. The Company shall use its best efforts to (i) cause any such additional Registration Statement, when filed, to become effective within 30 days of that date that the need to file the Registration Statement arose. All of the registration rights and remedies under this Agreement shall apply to the registration of such newly reserved shares and such new Registrable Securities.

(g) If at any time during the term of this Agreement, a registration statement described herein is not effective with respect to some or all of the Demand Registrable Securities, each Holder shall have the following "piggyback" registration rights. If the Company at any time following the Closing Date proposes for any reason to register Common Shares under the Securities Act (other than registrations on Form S-4 or Form S-8 promulgated under the Securities Act or any successor forms thereto), it shall promptly give written notice to each Holder of its intention to so register such equity securities and, upon the written request, given within 20 days after delivery of such notice by the Company, of each Holder to include in such registration Demand Registrable Securities held by the Holder (which request shall specify the number of Demand Registrable Securities proposed to be included in such registration by the Holder and shall state the intended method of disposition of such Demand Registrable Securities by the Holder), the Company shall use its best efforts to cause all such Demand Registrable Securities to be included in such registration on the same terms and conditions as the securities otherwise being sold in such registration; provided, however, that if the managing underwriter advises the Company in writing that the inclusion of all Demand Registrable Securities proposed to be included in such registration would interfere materially with the successful marketing (including pricing) of primary shares (the "Primary Shares") proposed to be registered by the Company, then the number of Primary Shares and Demand Registrable Securities proposed to be included in such registration shall be included in the following order:

(i) first, the Demand Registrable Securities requested to be included in such registration pursuant to this Section 2(g); and

(ii) second, the Primary Shares

provided, that, in the case of any such underwritten offering of Common Stock by the Company that is in satisfaction of a demand registration pursuant to Section 2(h), the order for inclusion of Primary Shares and Demand Registrable Securities shall be as set forth in that section.

(h) If at any time during the term of this Agreement, a registration statement described herein is not effective with respect to some or all of the Demand Registrable Securities, each Holder shall have the following demand registration rights. If the Company shall be requested in writing by a Holder to effect a registration on Form S-1 under the Securities Act of Demand Registrable Securities (which request shall specify the number of Demand Registrable Securities proposed to be included in such registration by the Holder and shall state the intended method of disposition of such Demand Registrable Securities), then the Company shall promptly and in any event within three (3) business days give written notice ("Demand Notice") to the other Holders of such request and use its best efforts to file within ten (10) business days of providing the Demand Notice such Registration Statement registering such Demand Registrable Securities which the Company has been so requested to register by the Holder and any other Holders responding to such notice during such ten (10) business days following delivery of the Demand Notice pursuant to this Section 2(h); provided, however, that the Company shall not be obligated to effect any registration under this Section 2(h) except in accordance with the following provisions:

(i) The Company shall not be obligated to use its best efforts to file and cause to become effective (x) more than two registration statements on Form S-1 with respect to Demand Registrable Securities initiated by any or all of the Holders pursuant to this Section 2(h);

(ii) The Company may delay the filing or effectiveness of any registration statement for a period of up to 30 days after the date of a request for registration pursuant to this Section 2(h) if the Company determines in good faith that (A) it is in possession of material, non-public information concerning an acquisition, merger, recapitalization, consolidation, reorganization or other material transaction by or of the Company or concerning pending or threatened litigation and (B) disclosure of such information would jeopardize any such transaction or litigation or otherwise materially harm the Company; provided, however, that the Company may not exercise such deferral right more than once in any twelve month-period.

(iii) The number of shares of Common Stock initially included in such registration statement shall be no less than 100% of the maximum number of shares of Common Stock which may be included in a Registration Statement without exceeding registration limitations imposed by the SEC pursuant to Rule 415 described in Section 2(a)(i). In the event that less than all of the Demand Registrable Securities are included in a registration statement as a result of the limitations described in this paragraph and Section 2(a)(i), then the Company will (i) reduce on proportionate basis the number of Demand Registrable Securities of each Holder included in such registration statement and (ii) file additional registration statements, each registering the maximum number of Cut Back Shares permitted as a result of Commission Restrictions, seriatim, until all of the Demand Registrable Securities have been registered.

(i) At such time as the Company shall have qualified for the use of Form S-3 promulgated under the Securities Act or any successor form thereto, each Holder shall have the right to request in writing registrations on Form S-3 or such successor form of Registrable Securities held by each Holder in the manner described in Section 2(a), which request or requests shall (i) specify the number of Registrable Securities held by each Holder intended to be sold or disposed of, (ii) state the intended method of disposition of such Registrable Securities held by such Holders and (iii) relate to Registrable Securities having an anticipated aggregate offering price of at least $500,000. A requested registration on Form S-3 or any such successor form in compliance with Section 4 shall not count as a registration statement initiated pursuant to Section 2(h) but shall otherwise be treated as a registration statement initiated pursuant to, and shall, except as otherwise expressly provided in Section 4, be subject to Section 2.

3. Expenses of Registration. All Registration Expenses in connection with any registration, qualification or compliance with registration pursuant to this Agreement shall be borne by the Company, and all Selling Expenses of a Holder shall be borne by such Holder.

4. No Other Registration Rights. Without the prior written consent of all Holders who hold Demand Registrable Securities, the Company will not grant any registration rights which are senior to the registration rights granted hereby. The Company represents and warrants to each Holder that, other than as set forth on Schedule 4 hereto, there is not in effect on the date of this Agreement any agreement by the Company pursuant to which any holders of securities of the Company have a right to cause the Company to register or qualify such securities under the Securities Act or any securities or blue sky laws of any jurisdiction.

5. Registration on Form S-3. The Company shall use its reasonable best efforts to meet the "registrant eligibility" requirements for a secondary offering set forth in the general instructions to Form S-3 or any comparable or successor form or forms, or in the event that the Company is ineligible to use such form, such form as the Company is eligible to use under the Securities Act, provided that if such other form is used, the Company shall convert such other form to a Form S-3 as soon as the Company becomes so eligible.

6. Registration Period. In the case of the registration effected by the Company pursuant to this Agreement, the Company shall keep such registration effective and current until the earlier of (a) the date on which all the Holders have completed the sales or distribution described in the Registration Statement relating thereto or, if earlier until such Registrable Securities may be sold by the Investors under Rule 144(b)(1) (provided that the Company's transfer agent has accepted an instruction from the Company to such effect) and (b) the eighteen (18) month anniversary of the Closing Date.

7. Indemnification.

(a) Company Indemnity. The Company will indemnify each Holder, each of its officers, directors, agents, members and partners, and each person controlling each of the foregoing, within the meaning of Section 15 of the Securities Act and the rules and regulations thereunder with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls, within the meaning of Section 15 of the Securities Act and the rules and regulations thereunder, any underwriter, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any Time of Sale Information, final prospectus (as amended or supplemented if the Company files any amendment or supplement thereto with the SEC), Registration Statement filed pursuant to this Agreement or any post-effective amendment thereof or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made, or any violation by the Company of the Securities Act or any state securities law or in either case, any rule or regulation thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each Holder, each of its officers, directors, agents, members and partners, and each person controlling each of the foregoing, for any reasonable legal fees of a single counsel and any other expenses reasonably incurred in connection with investigating and defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to a Holder to the extent that any such claim, loss, damage, liability or expense arises out of or is based on (i) any untrue statement or omission based upon written information furnished to the Company by such Holder or underwriter (if any) therefor and stated to be specifically for use therein, (ii) any failure by any Holder to comply with prospectus delivery requirements of the Securities Act (other than a failure resulting from an act or omission on the part of the Company) or any other law or legal requirement applicable to them or any covenant or agreement contained in the Subscription Agreement or this Agreement or (iii) an offer or sale of Registrable Securities or Demand Registrable Securities occurring during a period in which sales under a Registration Statement are suspended as permitted by this Agreement; provided that notice has been properly provided to the Holder. The indemnity agreement contained in this Section 7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent will not be unreasonably withheld).

(b) Holder Indemnity. Each Holder will, severally but not jointly, if Registrable Securities or Demand Registrable Securities held by it are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors, officers, agents and partners, and any other stockholder selling securities pursuant to the Registration Statement and any of its directors, officers, agents, partners, and any person who controls such stockholder within the meaning of the Securities Act or Exchange Act and each underwriter, if any, of the Company's securities covered by such a Registration Statement, each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act and the rules and regulations thereunder, each other Holder (if any), and each of their officers, directors and partners, and each person controlling such other Holder(s) against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on (i) any untrue statement (or alleged untrue statement) of a material fact contained in any Time of Sale Information, final prospectus (as amended or supplemented if the Company files any amendment or supplement thereto with the SEC), Registration Statement filed pursuant to this Agreement or any post-effective amendment thereof or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statement therein not misleading in light of the circumstances under which they were made or (ii) failure by such Holder to comply with prospectus delivery requirements of the Securities Act (other than a failure resulting from an act or omission on the part of the Company or any other law or legal requirement applicable to them or any covenant or agreement contained in the Subscription Agreement or this Agreement, and will reimburse the Company and such other Holder(s) and their directors, officers and partners, underwriters or control persons for any reasonable legal fees or any other expenses reasonably incurred in connection with investigating and defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such Time of Sale Information, final prospectus (as amended or supplemented if the Company files any amendment or supplement thereto with the SEC), Registration Statement filed pursuant to this Agreement or any post-effective amendment thereof in reliance upon and in conformity with written information furnished to the Company by such Holder and stated to be specifically for use therein, and provided that the maximum amount for which such Holder shall be liable under this indemnity shall not exceed the net proceeds received by such Holder from the sale of the Registrable Securities or Demand Registrable Securities, as the case may be, pursuant to the registration statement in question. The indemnity agreement contained in this Section 7(b) shall not apply to amounts paid in settlement of any such claims, losses, damages or liabilities if such settlement is effected without the consent of such Holder (which consent shall not be unreasonably withheld).

(c) Procedure. Each party entitled to indemnification under this Section 7 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim in any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at its own expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 7 except to the extent that the Indemnifying Party is materially and adversely affected by such failure to provide notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such non-privileged information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

8. Contribution. If the indemnification provided for in Section 7 herein is unavailable to the Indemnified Parties in respect of any losses, claims, damages or liabilities referred to herein (other than by reason of the exceptions provided therein), then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities as between the Company on the one hand and any Holder(s) on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of such Holder(s) in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of any Holder(s) on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by such Holder(s).

In no event shall the obligation of any Indemnifying Party to contribute under this Section 8 exceed the amount that such Indemnifying Party would have been obligated to pay by way of indemnification if the indemnification provided for under Section 7(a) or 7(b) hereof had been available under the circumstances.

The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation (even if the Holders were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraphs. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraphs shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section, no Holder shall be required to contribute any amount in excess of the amount of the net proceeds received by such Holder from the sale of Registrable Securities pursuant to the registration statement in question. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

9. Survival. The indemnity and contribution agreements contained in Sections 7 and 8 shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, the Subscription Agreement or the Placement Agent Agreement and (ii) the consummation of the sale or successive resales of the Registrable Securities.

10. Information by Holders. As a condition to the obligations of the Company to complete any registration pursuant to this Agreement with respect to the Registrable Securities of each Holder, such Holder will furnish to the Company such information regarding itself, the Registrable Securities held by it and the intended methods of disposition of the Registrable Securities held by it as is reasonably required by the Company to effect the registration of the Registrable Securities. At least five business days prior to the first anticipated filing date of a Registration Statement for any registration under this Agreement, the Company will notify each Holder of the information the Company requires from that Holder whether or not such Holder has elected to have any of its Registrable Securities included in the Registration Statement. If the Company has not received the requested information from a Holder by the business day prior to the anticipated filing date, then the Company may file the Registration Statement without including Registrable Securities of that Holder.

11. Further Assurances. Each Holder will cooperate with the Company, as reasonably requested by the Company, in connection with the preparation and filing of any Registration Statement hereunder, unless such Holder has notified the Company in writing of such Holder's irrevocable election to exclude all of such Holder's Registrable Securities from such Registration Statement.

12. Suspension of Sales. Upon receipt of any notice from the Company under Section 2(a)(v) or 2(b), each Holder will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities until (i) it receives copies of a supplemented or amended prospectus contemplated by Sections 2(a)(v) or (ii) the Company advises the Holder that a suspension of sales under Section 2(b) has terminated. If so directed by the Company, each Holder will deliver to the Company (at the expense of the Company) or destroy all copies in the Holder's possession (other than a limited number of file copies) of the prospectus covering such Registrable Securities that is current at the time of receipt of such notice.

13. Replacement Certificates. The certificate(s) representing the Registrable Securities held by the Holder may be exchanged by the Holder at any time and from time to time for certificates with different denominations representing an equal aggregate number of Registrable Securities of the same tenor, as reasonably requested by such Holder upon surrendering the same. No service charge will be made for such registration or transfer or exchange. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of certificates evidencing any Registrable Securities, and, in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it, or upon surrender and cancellation of such certificate if mutilated, the Company will make and deliver a new certificate of like tenor and dated as of such cancellation at no charge to the holder.

14. Transfer or Assignment. Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The rights granted to the Holder by the Company under this Agreement to cause the Company to register Registrable Securities may be transferred or assigned (in whole or in part) to a transferee or assignee of the shares of Common Stock, Warrants or Registrable Securities, and all other rights granted to the Holder by the Company hereunder may be transferred or assigned to any transferee or assignee of the shares of Common Stock, Warrants or Registrable Securities; provided in each case that (i) the Company is given written notice by the Holder at the time of or within a reasonable time after such transfer or assignment, stating the name and address of said transferee or assignee and identifying the securities with respect to which such registration rights are being transferred or assigned; and provided further that the transferee or assignee of such rights agrees in writing to be bound by the registration provisions of this Agreement, (ii) such transfer or assignment is not made under the Registration Statement or Rule 144, (iii) such transfer is made according to the applicable requirements of the Subscription Agreement, and (iv) the transferee has provided to the Company an investor questionnaire (or equivalent document) evidencing that the transferee is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act or an "accredited investor" as defined in Rule 501(a) of Regulation D.

15. Miscellaneous.

(a) Remedies. The Company and the Holders acknowledge and agree that irreparable damage may occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to seek an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which any of them may be entitled by law or equity.

(b) Jurisdiction. The Company and each Holder (i) hereby irrevocably submits to the exclusive jurisdiction of the United States District Court, the New York state courts and other courts of the United States sitting in New York County, New York for the purposes of any suit, action or proceeding arising out of or relating to this Agreement and (ii) hereby waives, and agrees not to assert in any such suit action or proceeding, any claim that it is not personally subject to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. The Company and the Holder consent to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this paragraph shall affect or limit any right to serve process in any other manner permitted by law.

(c) Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing by facsimile, mail or personal delivery and shall be effective upon actual receipt of such notice. The addresses for such communications shall be:

to the Company:

[Pubco]
600 Cruiser Lane
Belgrade, Montana 59714
Attn: Chief Financial Officer

with a copy to:

Greenberg Traurig, LLP
1200 17th Street, Suite 2400
Denver, Colorado 80123
Attn: Marc J. Musyl

If to the Investors, to the addresses set forth on Schedule I to the Subscription Agreement:

with a copy to:

Wollmuth Maher Deutsch LLP
500 Fifth Avenue, 12th Floor
New York, New York 10110
Facsimile: (212) 382-0050
Attention: Gerald Coviello

If to any of the Harborview Shareholders:

Harborview Advisors, LLC
850 Third Avenue, Suite 1801
New York, New York 10022
Facsimile: (646) 218-1401
Attention: Chief Financial Officer

with a copy to:

Haynes and Boone LLP
1221 Avenue of the Americas
26th Floor

New York, NY 10020
Facsimile: (212) 884-8234
Attention: Rick A. Werner, Esq.
Any party hereto may from time to time change its address for notices by giving at least five days' written notice of such changed address to the other parties hereto.

(d) Waivers. No waiver by any party of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter. The representations and warranties and the agreements and covenants of the Company and each Holder contained herein shall survive the Closing.

(e) Execution in Counterpart. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement, it being understood that all parties need not sign the same counterpart.

(f) Signatures. Facsimile signatures shall be valid and binding on each party submitting the same.

(g) Entire Agreement; Amendment. This Agreement, together with the Subscription Agreement, the Warrants, and the agreements and documents contemplated hereby and thereby, contains the entire understanding and agreement of the parties, and may not be amended, modified or terminated except by a written agreement signed by the Company plus Investors and holders of the Harborview Shares who hold not less than 67% of the Demand Registrable Securities (determined on a fully-diluted, as converted basis, if applicable); provided, however, that any amendment that pertains to the right and/or obligations of the Harborview Shareholders shall require the written consent of the holders of a majority of the Harborview Shares.

(h) Governing Law. This Agreement and the validity and performance of the terms hereof shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts executed and to be performed entirely within such state, except to the extent that the law of the State of Delaware regulates the Company's issuance of securities.

(i) Jury Trial. EACH PARTY HERETO WAIVES THE RIGHT TO A TRIAL BY JURY.

(j) Titles. The titles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

(k) No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction will be applied against any party.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed as of the date first written above.

COMPANY:

BACTERIN INTERNATIONAL HOLDINGS, INC.,
f/k/a K-KITZ, INC.

By: _____

Name: Guy Cook
Title: President and Chief Executive Officer

COUNTERPART SIGNATURE PAGE
TO REGISTRATION RIGHTS AGREEMENT,
DATED JUNE __, 2010,
AMONG BACTERIN INTERNATIONAL, INC. AND
THE "HOLDERS" IDENTIFIED THEREIN

The undersigned hereby executes and delivers the Registration Rights Agreement to which this Signature Page is attached, which, together with all counterparts of the Registration Rights Agreement and Signature Pages of the Company and other "Holders" under the Registration Rights Agreement, shall constitute one and the same document in accordance with the terms of the Registration Rights Agreement.

HOLDER: _____

By: _____

Name:
Title:

EXHIBIT 10.3

SHAREHOLDER LOCK-UP AGREEMENT

THIS AGREEMENT (this "Agreement") is dated as of June ___, 2010 (the "Effective Date") by and between Bacterin International Holdings, Inc., f/k/a K-Kitz, Inc., a Delaware corporation (the "Company"), and the persons set forth on the signature pages hereto (each a "Management Shareholder" and collectively, the "Management Shareholders"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Subscription Agreement (as defined below).

WHEREAS, the Company has entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Bacterin International Inc., a Nevada corporation ("Bacterin"), will become a wholly-owned subsidiary of the Company (the "Reverse Merger") and, contingent upon the closing of the Reverse Merger, the Investors have agreed to acquire from the Company (the "Offering"), either for cash or upon conversion of certain existing promissory notes ("Bridge Notes") of Bacterin, (i) shares of the Company's common stock (the "Common Stock") and (ii) warrants ("Warrants") to purchase additional shares of the Common Stock, subject to the terms and conditions set forth in a Subscription Agreement entered into between Bacterin and each of the Investors in connection with the Offering (the "Subscription Agreement" and such transaction, the "Financing Transaction"); and

WHEREAS, in order to induce the Company and the Investors to enter into the Financing Transaction, the Management Shareholders have agreed not to sell any shares of the Company's Common Stock that such Management Shareholders presently own on the date hereof, or may acquire on or after the date hereof, except in accordance with the terms and conditions set forth herein (collectively, the "Lock-Up Shares").

NOW, THEREFORE, in consideration of the covenants and conditions hereinafter contained, the parties hereto agree as follows:

1. Restriction on Transfer; Term. Each Management Shareholder hereby agrees with the Company that such Management Shareholder will not offer, sell, contract to sell, assign, transfer, hypothecate, gift, pledge or grant a security interest in, or otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition of (whether by actual disposition or effective economic disposition due to cash settlement or otherwise, directly or indirectly) (each, a "Transfer"), any of the Lock-Up Shares and shall not Transfer such shares until the one year anniversary of the Effective Date; provided, however, that (a) the restrictions set forth in this Section 1 shall not apply to any Common Stock or Warrants (or any shares of common stock underlying the Warrants) acquired by a Management Shareholder in the Offering which would otherwise constitute Lock Up Shares and (b) Guy Cook shall be permitted to hypothecate, pledge and grant a security interest in up to 5,000,000 of his Lock Up Shares (excluding any shares of Common Stock he may acquire in the Offering which are not subject to this Section 1 pursuant to section 1(a) above) as collateral for borrowed funds used to acquire shares of Common Stock and warrants in the Offering and, if such collateral is executed against, shall be permitted to assign and transfer such Lock Up Shares to the secured party free of any restrictions set forth herein.

2. Ownership. During the Lock-Up Period, the Management Shareholders shall retain all rights of ownership in the Lock-Up Shares, including, without limitation, voting rights and the right to receive any dividends that may be declared in respect thereof, except as otherwise provided in the Subscription Agreement or the other documents to be entered into in connection with the Offering whereby any benefits, rights, title or otherwise shall inure to the Investors.

3. Company and Transfer Agent. The Company is hereby authorized and required to disclose the existence of this Agreement to its transfer agent. The Company and its transfer agent are hereby authorized and required to decline to make any transfer of the Common Stock if such transfer would constitute a violation or breach of this Agreement.

4. Notices. All notices, demands, consents, requests, instructions and other communications to be given or delivered or permitted under or by reason of the provisions of this Agreement or in connection with the transactions contemplated hereby shall be in writing and shall be deemed to be delivered and received by the intended recipient as follows: (i) if personally delivered, on the business day of such delivery (as evidenced by the receipt of the personal delivery service), (ii) if mailed certified or registered mail return receipt requested, two (2) business days after being mailed, (iii) if delivered by overnight courier (with all charges having been prepaid), on the business day of such delivery (as evidenced by the receipt of the overnight courier service of recognized standing), or (iv) if delivered by electronic mail or facsimile transmission, on the business day of such delivery if sent by 6:00 p.m. in the time zone of the recipient, or if sent after that time, on the next succeeding business day (as evidenced, in the case of facsimile transmissions by the printed confirmation of delivery generated by the sending party's telecopier machine). If any notice, demand, consent, request, instruction or other communication cannot be delivered because of a changed address of which no notice was given (in accordance with this Section 4), or the refusal to accept same, the notice, demand, consent, request, instruction or other communication shall be deemed received on the second business day the notice is sent (as evidenced by a sworn affidavit of the sender). All such notices, demands, consents, requests, instructions and other communications will be sent to the following addresses or facsimile numbers as applicable.

If to the Company:

Mr. Guy S. Cook
Chief Executive Officer and President
Bacterin International, Inc.
600 Cruiser Lane
Belgrade, MT 59714
Fax:

With a copy to:

Greenberg Traurig, LLP
1200 17th Street, Suite 2400
Denver, CO 80202
Attn: C. Ben Huber
Fax: (720) 904-7686

If to the Investors, to the addresses listed on Schedule I hereto:

With a copy to:

Gregory J. Osborn
Managing Partner, Co-Founder
Middlebury Group, L.L.C.
170 East Ridgewood Ave.
Ridgewood NJ 07450
Fax: (646) 514-3980

If to the Management Shareholders, to such Management Shareholder c/o of the Company at the address set forth above, or to such other address as any party may specify by notice given to the other party in accordance with this Section 4.

5. Amendment. This Agreement may not be modified, amended, altered or supplemented, except by a written agreement executed by each of the parties hereto following the prior written consent of Investors holding a majority of the shares of Common Stock acquired in the Offering through purchase or conversion.

6. Entire Agreement. This Agreement contains the entire understanding and agreement of the parties relating to the subject matter hereof and supersedes all prior and/or contemporaneous understandings and agreements of any kind and nature (whether written or oral) among the parties with respect to such subject matter.

7. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in that state, without regard to any of its principles of conflicts of laws or other laws which would result in the application of the laws of another jurisdiction. This Agreement shall be construed and interpreted without regard to any presumption against the party causing this Agreement to be drafted.

8. Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH OF THE PARTIES UNCONDITIONALLY AND IRREVOCABLY CONSENTS TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK LOCATED IN NEW YORK COUNTY AND THE FEDERAL DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK WITH RESPECT TO ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND EACH OF THE PARTIES HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES ANY OBJECTION TO VENUE IN NEW YORK COUNTY OR SUCH DISTRICT, AND AGREES THAT SERVICE OF ANY SUMMONS, COMPLAINT, NOTICE OR OTHER PROCESS RELATING TO SUCH SUIT, ACTION OR OTHER PROCEEDING MAY BE EFFECTED IN THE MANNER PROVIDED IN SECTION 4.

9. Severability. The parties agree that if any provision of this Agreement be held to be invalid, illegal or unenforceable in any jurisdiction, that holding shall be effective only to the extent of such invalidity, illegally or unenforceability without invalidating or rendering illegal or unenforceable the remaining provisions hereof, and any such invalidity, illegally or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. It is the intent of the parties that this Agreement be fully enforced to the fullest extent permitted by applicable law.

10. Binding Effect; Assignment. This Agreement and the rights and obligations hereunder may not be assigned by any Management Shareholder without the prior written consent of the Company and Investors holding a majority of the shares of Common Stock acquired in the Offering through purchase or conversion. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

11. Headings. The section headings contained in this Agreement (including, without limitation, section headings and headings in the exhibits and schedules) are inserted for reference purposes only and shall not affect in any way the meaning, construction or interpretation of this Agreement. Any reference to the masculine, feminine, or neuter gender shall be a reference to such other gender as is appropriate. References to the singular shall include the plural and vice versa.

12. Counterparts. This Agreement may be executed in two or more counterparts, and by the different parties hereto in separate counterparts, by facsimile or other electronic transmission, each of which when executed shall be deemed to be an original, and all of which, when taken together, shall constitute one and the same document. This Agreement shall become effective when one or more counterparts, taken together, shall have been executed and delivered by all of the parties hereto.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above herein.

BACTERIN INTERNATIONAL
HOLDINGS, INC., f/k/a K-KITZ, Inc.

By: _____
Name: Guy Cook
Title: President and CEO

SHAREHOLDER

By: _____
Name: Guy Cook

SHAREHOLDER

By: _____
Name: Kent Swanson

SHAREHOLDER

By: _____
Name: Ken Calligar

SHAREHOLDER

By: _____
Name: Mitch Godfrey

SHAREHOLDER

By: _____
Name: Jesus Hernandez

SHAREHOLDER

By: _____
Name: Darrel Holmes

SHAREHOLDER

By: _____
Name: John P. Gandolfo

SHAREHOLDER

Name: Daniel Frank

SHAREHOLDER

Name: Gary Simon

EXHIBIT 10.4

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Agreement") is made and entered as of June ___, 2010 by and between Bacterin International Holdings, Inc., a Delaware corporation, f/k/a K-Kitz, Inc., with its principal place of business at 600 Cruiser Lane, Belgrade, Montana 59714 (the "Company"), and _____ ("Indemnitee") and the parties agree as follows:

1. Services by Indemnitee. Indemnitee agrees to serve as a director of the Company so long as he is duly appointed or elected and qualified in accordance with the applicable provisions of the Articles of Incorporation and Bylaws of the Company or any subsidiary of the Company and until such time as he resigns or fails to stand for election or is removed from his position. Indemnitee may, at any time and for any reason, resign or be removed from such position (subject to any other contractual obligation or other obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in any such position.

2. Indemnification.

(a) Subject to the limitations set forth herein and in Sections 2(b) and 4 below, the Company shall indemnify Indemnitee against Expenses and Liabilities in connection with any Proceeding (as hereinafter defined in Section 13) associated with Indemnitee's being a director of the Company to the fullest extent permitted by applicable law, the Articles of Incorporation or the bylaws of the Company in effect on the date hereof or as such law, Articles of Incorporation or bylaws may from time to time be amended (but, in the case of any such amendment, only to the extent such amendment permits the Company to provide broader indemnification rights than the law, the Articles of Incorporation or the bylaws permitted the Company to provide before such amendment). The right to indemnification provided in the Company's bylaws shall be presumed to have been relied upon by Indemnitee in serving or continuing to serve the Company and shall be enforceable as a contract right. Without diminishing the scope of the indemnification provided by this Section 2, the Company shall indemnify Indemnitee whenever he is or was a party or is threatened to be made a party to any Proceeding, including without limitation any such Proceeding brought by or in the right of the Company, because he is or was a director of the Company or because of anything done or not done by him in such capacity, against Expenses and Liabilities actually and reasonably incurred by Indemnitee or on his behalf in connection with such Proceeding, including the costs of any investigation, defense, settlement or appeal. In addition to, and not as a limitation of, the foregoing, the rights of indemnification of Indemnitee provided under this Agreement shall include those rights set forth in Sections 3, 7, 8, and 12 below. Notwithstanding the foregoing, the Company shall only be required to indemnify and hold Indemnitee harmless in connection with a Proceeding commenced by Indemnitee (other than a Proceeding commenced by Indemnitee to enforce Indemnitee's rights under this Agreement) if the commencement of such Proceeding was authorized by the board of directors of the Company (the "Board of Directors").

(b) Notwithstanding anything in this Agreement to the contrary, the Company shall not be obligated under this Agreement to continue to indemnify Indemnitee with respect to:

(i) any claim, issue or matter after Indemnitee is finally adjudged to be liable to the Company by a court of competent jurisdiction due to gross negligence, fraud, knowing violation of the law or willful misconduct unless and to the extent that a court in which the action was heard determines that Indemnitee is entitled to indemnification for such amounts as the court deems proper; provided, that until such time as a final adjudication is made as to Indemnitee's gross negligence, fraud, knowing violation of law or willful misconduct, the Company shall advance Indemnitee his Expenses in accordance with Section 3 herein, subject to repayment as described in Section 3 in the event of a final adjudication of gross negligence, fraud, knowing violation of law or willful misconduct;

(ii) the reporting or accounting of profits made (1) for an improper personal profit without full and fair disclosure to the Company of all material conflicts of interest and not approved thereof by a majority of the disinterested members of the Board of Directors, or (2) from the purchase or sale by Indemnitee of securities of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 as amended, or similar provisions of any state statutory or common law;

(iii) any attempt to acquire, or obtain voting rights with respect to, at least fifty percent (50%) of the then outstanding voting stock of the Company, whether by tender offer, proxy solicitation or otherwise, if (a) Indemnitee attempted to acquire or obtain voting rights with respect to such stock or was or became a member of a group consisting of two or more persons that had agreed (whether formally or informally and whether or not in writing) to act together for the purpose of acquiring, obtaining voting rights with respect to, holding, voting or disposing of, such stock, and (b) such attempt to acquire or obtain voting rights with respect to such stock was not approved by a majority of the directors of the Company, for purposes of determining whether any tender offer, proxy solicitation or other transaction constituted an attempt by Indemnitee, or a group (as described above) of which Indemnitee was or became a member, to acquire or obtain voting rights with respect to at least fifty percent (50%) of the then outstanding voting stock of the Company, there shall be counted toward the request number of shares of voting stock any shares which, immediately prior to the commencement of such tender offer, proxy solicitation or other transaction, (x) were owned by Indemnitee or any member of any such group, (y) Indemnitee or any member of any such group had the right to vote, or (z) Indemnitee or any member of any such group had the right to acquire;

(iv) any solicitation of proxies by Indemnitee, or by a group of which he was or became a member consisting of two or more persons that had agreed (whether formally or informally and whether or not in writing) to act together for the purpose of soliciting proxies, in opposition to any solicitation of proxies approved by the Company's Board of Directors;

(vi) any act or omission by Indemnitee that constitutes a breach of or default under any agreement between Indemnitee and the Company; or

(vii) to the extent it would be otherwise prohibited by law, if so established by a court having jurisdiction in the matter in a judgment or other final adjudication (and, in this respect, both the Company and Indemnitee have been advised that the U.S. Securities and Exchange Commission believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable).

(c) Indemnitee shall be paid promptly by the Company all amounts necessary to effectuate the indemnity described in Section 2(a).

3. Advancement of Expenses. All reasonable Expenses incurred by or on behalf of Indemnitee shall be advanced from time to time by the Company to him within thirty (30) days after the receipt by the Company of a written request for an advance of Expenses, whether prior to or after final disposition of a proceeding (except to the extent that there has been a Final Adverse Determination that Indemnitee is not entitled to be indemnified for such Expenses), including without limitation any proceeding brought by or in the right of the Company; provided, however, that Indemnitee shall not be entitled to the advancement of expenses in connection with any proceeding relating to his termination by or resignation from the Company or arising out of the circumstances described in Sections 2(b)(ii), 2(b)(iii) or 2(b)(iv). The written request for and advancement of any and all Expenses under this paragraph shall contain reasonable detail of the Expenses incurred by Indemnitee and, if required by law at the time of such advance, shall include or be preceded or accompanied by a written undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined by a court of competent jurisdiction that Indemnitee is not entitled to be indemnified against such Expenses. If required by law at the time of such advance, Indemnitee hereby agrees to repay any and all Expenses advanced if it is ultimately determined that Indemnitee is not entitled to be indemnified pursuant to the terms of the Agreement.

4. Additional Limitations. The foregoing indemnity and advancement of Expenses shall apply only to the extent that Indemnitee has not been indemnified and reimbursed pursuant to such insurance as the Company may maintain for Indemnitee's benefit, or otherwise; provided, however, that notwithstanding the availability of such other indemnification and reimbursement, Indemnitee may claim indemnification and advancement of Expenses pursuant to this Agreement by assigning to the Company, at its request, Indemnitee's claims under such insurance to the extent Indemnitee has been paid by the Company.

5. Insurance and Funding. Within a commercially reasonable time from the date hereof, the Company shall purchase and maintain insurance to protect itself and/or Indemnitee against any Expenses and Liabilities in connection with any proceeding to the fullest extent permitted by applicable laws. The Company may create a trust fund, grant and interest in assets or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification or advancement of Expenses as provided in this Agreement.

6. Procedure for Determination of Entitlement to Indemnification.

(a) Whenever Indemnitee believes that he is entitled to indemnification pursuant to this Agreement, Indemnitee shall submit a written request for indemnification to the Company. Any request for indemnification shall include sufficient documentation or information reasonably available to Indemnitee to support his claim for indemnification. Indemnitee shall submit his claim for indemnification within a reasonable time not to exceed five years after any judgment, order, settlement, dismissal, arbitration award, conviction, acceptance of a plea of nolo contendere or its equivalent, final termination or other disposition or partial disposition of any proceeding, whichever is the later date for which Indemnitee requests indemnification. The president or the secretary or other appropriate officer of the Company shall, promptly upon receipt of Indemnitee's request for indemnification, advise the Board of Directors of the Company in writing that Indemnitee has made such request. Determination of Indemnitee's entitlement to indemnification shall be made not later than sixty (60) days after the Company's receipt of the written request for such indemnification.

(b) The majority of disinterested directors, or if such majority does not exist, the full Board of Directors, shall be entitled to select the forum in which Indemnitee's request for indemnification will be heard, which selection shall be transmitted to the Indemnitee in writing. The forum shall be any one of the following:

(i) The stockholders of the Company;

(ii) A quorum of the Board of Directors consisting of disinterested directors;

(iii) Independent legal counsel, who shall make the determination in a written opinion; or

(iv) A panel of three arbitrators, one selected by the Company, another by Indemnitee and the third by the first two arbitrators selected. If for any reason three arbitrators are not selected within thirty (30) days after the appointment of the first arbitrator, then selection of additional arbitrators shall be made by the American Arbitration Association. If any arbitrator resigns or is unable to serve in such capacity for any reason, the American Arbitration Association shall select such arbitrator's replacement. The arbitration shall be conducted pursuant to the commercial arbitration rules of the American Arbitration Association now in effect.

(c) Upon making a request for indemnification, Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Company shall have the burden of proof to overcome that presumption in reaching any contrary determination. The termination of any proceeding by judgment, order, settlement, arbitration award or conviction, or upon a plea of nolo contendere or its equivalent shall not affect this presumption or, except as provided in Section 2 or 4 hereof, establish a presumption with regard to any factual matter relevant to determining Indemnitee's rights to indemnification hereunder.

7. Fees and Expenses of Independent Legal Counsel. The Company agrees to pay the reasonable fees and expenses of independent legal counsel or a panel of three arbitrators should such counsel or such panel of arbitrators be retained to make a determination of Indemnitee's entitlement to indemnification pursuant to Section 6 of this Agreement, and to fully indemnify such counsel arising out of or relating to this Agreement or their engagement pursuant hereto, except with respect to expenses and losses resulting from the negligence or willful misconduct of such persons.

8. Remedies of Indemnitee.

(a) In the event that (i) a determination pursuant to Section 6 hereof is made that Indemnitee is not entitled to indemnification, (ii) advances of Expenses are not made pursuant to this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 6(b) of this Agreement within 60 days after receipt by the Company of the request for indemnification, or (iv) payment has not been timely made following a determination of entitlement to indemnification pursuant to this Agreement, Indemnitee shall be entitled to a final adjudication in any court of competent jurisdiction of his rights. Indemnitee shall commence such proceeding seeking an adjudication within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 8(a). The Company shall not oppose Indemnitee's right to seek any such adjudication.

(b) In the event that a determination that Indemnitee is not entitled to indemnification, in whole or in part, has been made pursuant to Section 6 hereof, the decision in the judicial proceeding provided in paragraph (a) of this Section 8 shall be made de novo and Indemnitee shall not be prejudiced by reason of a determination that he is not entitled to indemnification.

(c) If a determination that Indemnitee is entitled to indemnification has been made pursuant to Section 6 hereof or otherwise pursuant to the terms of this Agreement, the Company shall be bound by such determination in the absence of (i) any misrepresentation of a material fact by Indemnitee or (ii) a specific finding (which has become final) by a court of competent jurisdiction that all or any part of such indemnification is expressly prohibited by Delaware law.

(d) In any court proceeding pursuant to this Section 8, the Company shall be precluded from asserting that the procedures and presumptions of this Agreement are not valid, binding and enforceable. The Company shall stipulate in any such court that the Company is bound by all provisions of this Agreement.

9. Modification, Waiver, Termination, and Cancellation. No supplement, modification, termination, cancellation or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver.

10. Notice by Indemnitee and Defense of Claim. Indemnitee shall promptly notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter, whether civil, criminal, administrative or investigative, but the omission to notify the Company will not relieve the Company from any liability which it may have to Indemnitee if such omission does not prejudice the Company's rights. If such omission does prejudice the Company's rights, the Company will be relieved from liability only to the extent of such prejudice, nor will such omission relieve the Company from any liability which it may have to Indemnitee otherwise than under this Agreement. With respect to any proceeding as to which Indemnitee notifies the Company of the commencement thereof;

(a) The Company will be entitled to participate therein at its own expense; and

(b) The Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee; provided, however, that the Company shall not be entitled to assume the defense of any proceeding if there has been a Change of Control or if Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee with respect to such proceeding. After notice from the Company to Indemnitee of its election to assume the defense thereof, the Company will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee in connection with the defense thereof, other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ its own counsel in such proceeding but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Indemnitee unless;

(i) The employment of counsel by Indemnitee has been authorized by the Company;

(ii) Indemnitee shall have reasonably concluded on the advice of counsel that there may be a conflict of interest between the Company and Indemnitee with respect to such proceeding; or

(iii) The Company shall not in fact have employed counsel to assume the defense in such proceeding or shall not in fact have assumed such defense and be acting in connection therewith with reasonable diligence; in each of which cases the fees and expenses of such counsel shall be at the expense of the Company.

(c) The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company shall not settle any proceeding in any manner which would subject Indemnitee to a penalty or cost without Indemnitee's written consent. Neither the Company nor Indemnitee will unreasonably withhold its or his consent to any proposed settlement.

11. Notices. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or by overnight courier such as Federal Express, or sent by certified or registered mail with postage prepaid, addressed

If to Indemnitee, to:

_____

_____

_____

_____

If to the Company, to:

Bacterin International Holdings, Inc.
600 Cruiser Lane
Belgrade, Montana 59714
Attention: General Counsel
Telephone No.: (406) 388-0480
Facsimile No.: (406) 388-1354

with a copy to:

Greenberg Traurig, LLP
1200 17th Street, Suite 2400
Denver, Colorado 80202
Attention: Marc J. Musyl, Esq.
Telephone No.: (303) 572-6585
Facsimile No.: (720) 904-7685

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be. Notices given as set forth herein shall be conclusively deemed to have been received by the party to whom addressed upon receipt, if delivered personally or by overnight courier, and three business days after the same is deposited in the United States mail if sent by certified or registered mail.

12. Nonexclusivity. The rights of Indemnitee hereunder shall not be deemed exclusive of any other rights to which Indemnitee may now or in the future be entitled under Delaware corporation law, the Company's Articles of Incorporation or bylaws and amendments thereto, or any agreements, vote of stockholders, resolution of the Board of Directors or otherwise.

13. Certain Definitions.

(a) **"Change in Control"** shall be deemed to have occurred if:

(i) Any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, hereafter becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities; or

(ii) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least eighty percent (80%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or

(iii) The stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, provided, however, that any other provision of this Section 13(a) notwithstanding, the term "Change in Control" shall not include a transaction, if undertaken at the election of the Company, the result of which is to sell all or substantially all of the assets of the Company to another corporation (the "surviving corporation"); provided that the surviving corporation is owned directly or indirectly by the stockholders of the corporation immediately following such transaction in substantially the same proportions as their ownership of the Company's common stock immediately preceding such transaction; and provided, further, that the surviving corporation expressly assumes this Agreement.

(b) **"Disinterested Director"** shall mean a director of the Company who is not or was not a party to the proceeding in respect of which indemnification is being sought by Indemnitee.

(c) **"Expenses"** shall include all direct and indirect costs (including, without limitation, attorneys fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, all other disbursements or out of pocket expenses and reasonable compensation for time spent by Indemnitee for which he is otherwise not compensated by the Company) actually and reasonably incurred in connection with a proceeding or establishing or enforcing a right to indemnification under this Agreement, applicable law or otherwise; provided, however, that Expenses shall not include any liabilities.

(d) "**Final Adverse Determination"** shall mean that a determination that Indemnitee is not entitled to indemnification shall have been made pursuant to Section 6 hereof and either (i) a final adjudication in a court of competent jurisdiction pursuant to Section 8(a) hereof shall have denied Indemnitee's right to indemnification hereunder, or (ii) Indemnitee shall have failed to file a complaint in a court of competent jurisdiction pursuant to Section 8(a) for a period of one hundred eighty (180) days after the determination made pursuant to Section 6 hereof.

(e) "**Indemnification Period"** shall mean the period of time during which Indemnitee shall continue to serve as a director of the Company, and thereafter so long as Indemnitee shall be subject to any possible proceeding arising out of acts or omissions of Indemnitee as a director of the Company.

(f) "**Independent Legal Counsel"** shall mean a law firm or a member of a law firm selected by the Company and approved by Indemnitee (which approval shall not be unreasonably withheld) and that neither is presently nor in the past five years has been retained to represent; (i) the Company or any of its subsidiaries or affiliates, or Indemnitee or any corporation as to which Indemnitee was or is a director, officer, employee or agent, or any subsidiary or affiliate of such a corporation, in any material matter, or (ii) any other party to the proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term Independent Legal Counsel shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing the Company or Indemnitee in an action to determine Indemnitee's right to indemnification under this Agreement.

(g) "**Liabilities"** shall mean liabilities of any type whatsoever including, but not limited to, any judgments, fines, ERISA excise taxes and penalties, penalties and amounts paid in settlement (including all interest assessments and other charges paid or payable in connection with or in respect of such judgments, fines, penalties or amounts paid in settlement) of any proceeding.

(h) **"Proceeding"** shall mean any threatened, pending or completed action, claim, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative, including any appeal therefrom.

14. Binding Effect, Duration and Scope of Agreement. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), spouses, heirs and personal and legal representatives. This Agreement shall continue in effect during the Indemnification Period, regardless of whether Indemnitee continues to serve as a director.

15. Severability. If any provision or provisions of this Agreement (or any portion thereof) shall be held to be invalid, illegal or unenforceable for any reason whatsoever:

(a) the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby; and

(b) to the fullest extent legally possible, the provisions of this Agreement shall be construed so as to give effect to the intent of any provision held invalid, illegal or unenforceable.

16. Governing Law and Interpretation of Agreements. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

17. Consent to Jurisdiction. The Company and Indemnitee irrevocably consent to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement.

18. Attorneys Fees. In any proceeding brought to enforce any provision of this Agreement, or to seek damages for a breach of any provision hereof, or when any provision hereof is validly asserted as a defense, the prevailing party shall be entitled to receive from the other party all reasonable attorneys fees and costs in connection therewith.

19. Authorization. Company has all necessary power and authority to enter into and perform its obligations under this Agreement, and the execution, delivery and performance of this Agreement have been duly authorized by all necessary action on the part of the Company and its officers, directors and shareholders. No authorization, consent or approval of or filing with any governmental authority or any other person is required to be obtained or made by Company in connection with the execution, delivery or performance of this Agreement.

20. Confidentiality. Unless otherwise required by law, Company agrees to, and shall undertake all necessary action required to, keep confidential all information which relates to any Expense or any transaction or defense or indemnity arising out of this Agreement which relates to Indemnitee.

21. Maintenance of Obligation to Indemnify. Company hereby covenants and agrees that it shall not permit the indemnification provided to Indemnitee as set forth in this Agreement to be compromised, restricted, limited, or eliminated in any manner, including by way of amendment of Company's bylaws and other governing documents.

22. Further Assurances. Each party shall execute such instruments and other documents, and take such action as may be required, as the other party may reasonably request, for the purpose of carrying out or evidencing the transactions contemplated hereby.

23. Entire Agreement. This Agreement represents the entire agreement between the parties hereto, and there are no other agreements, contracts or understandings between the parties hereto with respect to the subject matter of this Agreement, except as specifically referred to herein or as provided in Section 12 hereof.

24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEROF, the undersigned have executed this Agreement as of the day and year first written above.

COMPANY:

BACTERIN INTERNATIONAL HOLDINGS, INC., f/k/a K-KITZ, INC., a Delaware corporation

By: _____
Name: _____
Title: _____

INDEMNITEE:

By: _____
Name: _____
Title: _____

EXHIBIT 10.5

BACTERIN INTERNATIONAL
EQUITY INCENTIVE PLAN

Effective June 7, 2010

BACTERIN INTERNATIONAL
EQUITY INCENTIVE PLAN

ARTICLE I
INTRODUCTION

1.1 ***Establishment***. K-Kitz, Inc., a Delaware corporation, hereby establishes the Bacterin International Equity Incentive Plan for certain key employees of the Company and certain directors and consultants to the Company. The Plan permits the grant of incentive stock options within the meaning of Code § 422, non-qualified stock options, restricted stock awards, stock appreciation rights, stock bonuses, restricted stock units and other stock grants to certain key employees of the Company and to certain directors and consultants to the Company.

1.2 ***Purposes***. The purposes of the Plan are to provide those who are selected for participation in the Plan with added incentives to continue in the long-term service of the Company and to create in such persons a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in shareholder value, so that the income of those participating in the Plan is more closely aligned with the income of the Company's shareholders. The Plan is also designed to provide a financial incentive that will help the Company attract, retain and motivate the most qualified employees, directors, and consultants.

ARTICLE II
DEFINITIONS

2.1 ***"Affiliated Corporation"*** means any corporation or other entity that is affiliated with the Plan Sponsor through stock ownership or otherwise, provided, however, that for purposes of Incentive Options granted pursuant to the Plan, an "Affiliated Corporation" means any parent or subsidiary of the Plan Sponsor as defined in Code § 424.

2.2 ***"Award"*** means an Option, a Restricted Stock Award, a Stock Appreciation Right, a Restricted Stock Unit, or grants of Stock issued under the Plan.

2.3 ***"Board"*** means the Board of Directors of the Plan Sponsor.

2.4 ***"Cause"*** shall have the meaning assigned to it by the Participant’s employment agreement, if the Company has entered into an employment agreement with the Participant; otherwise termination for "Cause" shall mean termination of employment as a result of a violation of any Company policy, procedure or guideline, or engaging in any of the following forms of misconduct: conviction of any felony or of any misdemeanor involving dishonesty or moral turpitude; theft or misuse of the Company's property or time; use of alcohol or controlled substances on the Company's premises or appearing on such premises while intoxicated or under the influence of drugs not prescribed by a physician, or after having abused prescribed medications; illegal use of any controlled substance; illegal gambling on the Company's premises; discriminatory or harassing behavior, whether or not illegal under federal, state or local law; willful misconduct; or falsifying any document or making any false or misleading statement relating to employment by the Company; or injures the economic or ethical welfare of the Company by misconduct or inattention to duties and responsibilities, or fails to meet the Company's performance expectations, as determined by the Company in its sole discretion.

2.5 ***"Change in Control"*** occurs on the date that:

(a) any one person, or more than one person acting as a group, acquires ownership of stock of the Plan Sponsor that, together with stock held by such person or group, constitutes more than 50% of the total Fair Market Value or total voting power of the stock of the Plan Sponsor. However, if any one person or more than one person acting as a group, is considered to own more than 50% of the total Fair Market Value or total voting power of the stock of the Plan Sponsor, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the Plan Sponsor (or to cause a change in the effective control of the Plan Sponsor. An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Plan Sponsor acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this Section.

(b) there is a change in the effective control of the Plan Sponsor. A change in the effective control of the Plan Sponsor occurs on the date that either:

(i) Any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Plan Sponsor possessing 30% or more of the total voting power of the stock of such corporation; or

(ii) a majority of members of the Plan Sponsor's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Plan Sponsor's board of directors prior to the date of the appointment or election.

(c) any one person, or more than one person acting as a group, acquires ownership of assets of the Plan Sponsor that have a gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Plan Sponsor immediately prior to such acquisitions. For this purpose, gross fair market value means the value of the assets of the Plan Sponsor, or the value of the assets being disposed of, determined without regard to any liabilities associates with the assets.

Persons Acting as a Group. Persons will not be considered to be acting as a group solely because they purchase or own stock of the Plan Sponsor at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

This Section shall be interpreted in accordance with Treasury guidance for the definition of Change in Control under Code § 409A.

2.6 ***"Code"*** means the Internal Revenue Code of 1986, as it may be amended from time to time.

2.7 ***"Committee"*** means a committee established under Article X of the Plan which is empowered to take actions with respect to the administration of the Plan.

2.8 ***"Company"*** means the Plan Sponsor and the Affiliated Corporations.

2.9 ***"Disabled"*** or ***"Disability"*** shall have the meaning given to such terms in Code § 22(e)(3).

2.10 ***"Effective Date"*** means the effective date of the Plan which is June 7, 2010; however, the adoption of those provisions of the Plan by the Board which relate to the grant of Incentive Options are subject to approval and ratification by the shareholders of the Plan Sponsor within 12 months of the effective date. Incentive Options granted under the Plan prior to the approval of the Plan by the shareholders of the Plan Sponsor shall be subject to approval of the Plan by the shareholders of the Plan Sponsor.

2.11 ***"Eligible Employees"*** means the employees (including, without limitation, officers and directors who are also employees) of the Company who are selected for participation in the Plan. For purposes of the Plan, an employee is an individual whose wages are subject to the withholding of federal income tax under Code § 3401.

2.12 ***"Eligible Individuals"*** means those consultants to the Company and directors of the Company who are selected by the Committee for participation in the Plan.

2.13 ***"Fair Market Value"*** means the closing price, on the Over-The-Counter Bulletin Board (OTCBB), the principal stock exchange or other market on which the Stock is traded, on the trading day preceding the grant date. If the price of the Stock is not reported on any securities exchange or national market system, the Fair Market Value of the Stock on a particular date shall be as determined by the Committee in good faith by applying any reasonable valuation method permitted under Code § 409A to determine fair market value in accordance with Code § 409A.

2.14 ***"Incentive Option"*** means an Option designated as an incentive stock option and granted in accordance with Code § 422.

2.15 *"**Non-Qualified Option**"* means any Option other than an Incentive Option.

2.16 *"**Option**"* means a right to purchase Stock at a stated or formula price for a specified period of time. Options granted under the Plan shall be either Incentive Options or Non-Qualified Options.

2.17 *"**Option Agreement**"* shall have the meaning given to it in Section 4.3.

2.18 *"**Option Holder**"* means a Participant who has been granted one or more Options under the Plan.

2.19 *"**Option Period**"* shall have the meaning given to it in Section 4.3(c).

2.20 *"**Option Price**"* means the price at which each Share subject to an Option may be purchased, determined in accordance with Section 4.3(b).

2.21 *"**Participant**"* means an Eligible Employee or Eligible Individual designated by the Committee during the term of the Plan to receive one or more Awards under the Plan.

2.22 *"**Plan**"* means the Bacterin International Equity Incentive Plan.

2.23 *"**Plan Sponsor**"* means K-Kitz, Inc. and any successor thereto.

2.24 *"**Restricted Stock Award**"* means Stock granted to a Participant that is subject to certain restrictions.

2.25 *"**Restricted Stock Award Agreement**"* shall have the meaning given to it in Section 5.2.

2.26 *"**Restricted Stock Unit**"* means a hypothetical interest in the value of one Share, denominated in United States dollars.

2.27 *"**RSU Agreement**"* shall have the meaning given to it in Section 6.2.

2.28 *"**RSU Holder**"* means a Participant who has been granted one or more RSUs under the Plan. The term “RSU Holder” also includes the beneficiary of a deceased Participant.

2.29 *"**RSUs**"* means Restricted Stock Units.

2.30 *"**SAR Agreement**"* shall have the meaning given to it in Section 7.3.

2.31 *"**SAR Holder**"* means a Participant who has been granted one or more SARs under the Plan.

2.32 *"**SAR Period**"* shall have the meaning given to it in Section 7.3(c).

2.33 ***"SARs"*** means Stock Appreciation Rights.

2.34 ***"Section" or "Subsection"*** means a reference to a section or subsection of the Plan, unless another reference specifically applies.

2.35 ***"Share"*** means a share of Stock.

2.36 ***"Shareholders Agreement"*** shall have the meaning given to it in Section 12.4.

2.37 ***"Stock"*** means the common stock of the Plan Sponsor and any stock issued or issuable subsequent to the Effective Date in substitution for the common stock.

2.38 ***"Stock Appreciation Right"*** means the right, granted by the Committee pursuant to the Plan, to receive a payment equal to the increase in the Fair Market Value of a Share subsequent to the grant of such right.

2.39 ***"Stock Bonus"*** means either an outright grant of Stock or a grant of Stock subject to and conditioned upon certain employment or performance related goals.

ARTICLE III
PARTICIPATION AND LIMIT ON AWARDS

3.1 ***Participation.*** The Committee shall select the Eligible Employees and Eligible Individuals who are Participants in the Plan. The Committee shall select the Eligible Employees who, in the judgment of the Committee, are performing, or during the term of their incentive arrangement will perform, vital services in the management, operation and development of the Company, and significantly contribute, or are expected to significantly contribute, to the achievement of long-term corporate economic objectives. The Committee shall select the Eligible Individuals from the non-employee consultants and directors for the Company who are performing services important to the operation and growth of the Company. Participants may be granted from time to time one or more Awards.

3.2 ***Limit on Awards.*** No Participant shall receive Awards for any calendar year in excess of 2,500,000 Shares and all Awards for all Participants in any calendar year shall not exceed 5,000,000 Shares.

ARTICLE IV
OPTIONS

4.1 ***Grant of Options.*** A Participant may be granted one or more Options. Options shall be granted as of the date specified in the Option Agreement. The Committee in its sole discretion shall designate whether an Option is an Incentive Option or a Non-Qualified Option. Only Non-Qualified Options may be granted to Eligible Individuals. The Committee may grant both an Incentive Option and a Non-Qualified Option to an Eligible Employee at the same time or at different times. Incentive Options and Non-Qualified Options, whether granted at the same time or at different times, shall be deemed to have been awarded in separate grants and shall be clearly identified. In no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of Shares for which any other Option may be exercised. The grant of each Option shall be separately approved by the Committee, and the receipt of one Option shall not result in automatic receipt of any other Option. Upon determination by the Committee to grant an Option to a Participant, the Committee shall enter into an Option Agreement with the Participant.

4.2 ***Restrictions on Incentive Options.***

(a) ***Initial Exercise.*** The aggregate Fair Market Value of the Shares with respect to which Incentive Options are exercisable for the first time by an Option Holder in any calendar year, under the Plan and any other plan of the Company, shall not exceed $100,000. For this purpose, the Fair Market Value of the Shares shall be determined as of the date of grant of the Option. To the extent the Option Holder holds two or more Options which become exercisable for the first time in the same calendar year, the $100,000 limitation shall be applied on the basis of the order in which the Options are granted. Any Option or portion thereof that exceeds the $100,000 limit shall be treated as a Non-Qualified Option, but only to the extent of such excess.

(b) ***Ten Percent Stockholders.*** Incentive Options granted to an Option Holder who is the holder of record of 10% or more of the outstanding Stock of the Plan Sponsor shall have an Option Price equal to 110% of the Fair Market Value of the Shares on the date of grant of the Option and the Option Period for any such Option shall not exceed five years.

(c) No Award of Incentive Options shall be granted after June 6, 2020, the day before the 10th year anniversary of the Effective Date.

4.3 ***Stock Option Agreements.*** Each Option granted under the Plan shall be evidenced by an agreement (an "Option Agreement"). An Option Agreement shall be issued by the Plan Sponsor in the name of the Option Holder and in such form as may be approved by the Committee. The Option Agreement shall incorporate and conform to the conditions in the Plan as well as any other terms and conditions that are not inconsistent as the Committee may consider appropriate. In the event of any inconsistency between the provisions of the Plan and any Option Agreement, the provisions of the Plan shall govern.

(a) ***Number of Shares.*** Each Option Agreement shall state that it covers a specified number of Shares, as determined by the Committee.

(b) ***Option Price.*** The price at which each Share covered by an Option may be purchased shall be determined in each case by the Committee and set forth in the Option Agreement, and shall not be less than 100% of the Fair Market Value of the Stock on the date the Option is granted.

(c) ***Duration of Options.*** Each Option Agreement shall state the period of time, determined by the Committee, within which the Option may be exercised by the Option Holder (the "Option Period"). The Option Period must end not more than ten years from the date the Option is granted. If the Option Agreement does not specify the Option Period, the Option Period will end ten years from the date the Option is granted.

(d) ***Restrictions on Exercise.*** The Option Agreement shall also set forth any restrictions on Option exercise during the Option Period, if any, as may be determined by the Committee. Each Option shall become exercisable (vest) over such period of time, if any, or upon such events, as determined by the Committee. If the Option Agreement does not specify the period of time over which the Option becomes exercisable, the Option shall become exercisable (vest) 20% on each subsequent anniversary date of the Option grant, so that the Option is 100% exercisable (vested) on the 5th anniversary of the date of the Option grant.

(e) ***Termination of Services, Death, or Disability.*** The Committee may specify in the Option Agreement the period, if any, after which an Option may be exercised following termination of the Option Holder's services. If the Option Agreement does not specify the period of time following termination of service during which Options may be exercised, the time periods in this Subsection shall apply. Once an Option is granted, the Committee may not change the time period during which an Option may be exercised following termination of the Option Holder's services, unless such a change would not cause additional taxes to be imposed pursuant to Code § 409A.

(i) **Termination for Cause.** If the services of the Option Holder are terminated within the Option Period for Cause, as determined by the Company, the Option shall thereafter be void for all purposes.

(ii) **Disability.** If the Option Holder becomes Disabled and terminates services, the Option may be exercised by the Option Holder within six months following the Option Holder's termination of services on account of Disability (provided that such exercise must occur within the Option Period), but not thereafter. The Option may be exercised only to the extent the Option had become exercisable on or before the date of the Option Holder's termination of services because of Disability.

(iii) **Death.** If the Option Holder dies during the Option Period while still performing services for the Company or within the six month period referred to in (ii) above or the three-month period referred to in (iv) below, the Option may be exercised by those entitled to do so under the Option Holder's will or by the laws of descent and distribution within six months following the Option Holder's death, (provided that such exercise must occur within the Option Period), but not thereafter. The Option may be exercised only to the extent the Option had become exercisable on or before the date of the Option Holder's termination of services because of the Option Holder's death.

(iv) **Termination for Reasons Other than Cause, Disability or Death.** If the Option Holder is no longer employed by the Company or performing services for the Company for any reason other than Cause, Disability or the Option Holder's death, the Option may be exercised by the Option Holder within three months following the date of termination (provided that the exercise must occur within the Option Period), but not thereafter. The Option may be exercised only to the extent the Option had become exercisable on or before the date of the Option Holder's termination of services.

4.4 ***Transferability.*** Each Option shall not be transferable by the Option Holder except by will or pursuant to the laws of descent and distribution. Each Option is exercisable during the Option Holder's lifetime only by him or her, or in the event of Disability or incapacity, by his or her guardian or legal representative. The Committee may, however, provide at the time of grant or thereafter that the Option Holder may transfer a Non-Qualified Option to a member of the Option Holder's immediate family, a trust of which members of the Option Holder's immediate family are the only beneficiaries, or a partnership of which members of the Option Holder's immediate family or trusts for the sole benefit of the Option Holder's immediate family are the only partners. Immediate family means the Option Holder's spouse, issue (by birth or adoption), parents, grandparents, and siblings (including half brothers and sisters and adopted siblings). During the Option Holder's lifetime the Option Holder may not transfer an Incentive Option under any circumstances.

4.5 ***Manner of Exercise.*** The method for exercising each Option granted hereunder shall be by delivery to the Plan Sponsor of (1) written notice specifying the number of Shares with respect to which such Option is exercised, (2) payment in full of the exercise price and any liability the Company may have for withholding of federal, state or local income or other taxes incurred by reason of the exercise of the Option, (3) representation meeting the requirements of Section 12.1 if requested by the Plan Sponsor, and (4) a Shareholders Agreement meeting the requirements of Section 12.4 if requested by the Plan Sponsor. The purchase of such Shares shall take place at the principal offices of the Plan Sponsor within thirty days following delivery of such notice, at which time the Option Price of the Shares shall be paid in full. If the Option Price is paid by means of a broker's loan transaction, in whole or in part, the closing of the purchase of the Stock under the Option shall take place (and the Option shall be treated as exercised) on the date on which, and only if, the sale of Stock upon which the broker's loan was based has been closed and settled, unless the Option Holder makes an irrevocable written election, at the time of exercise of the Option, to have the exercise treated as fully effective for all purposes upon receipt of the Option Price by the Plan Sponsor regardless of whether or not the sale of the Stock by the broker is closed and settled. A properly executed certificate or certificates representing the Shares shall be delivered to the Option Holder upon payment. If Options on less than all shares evidenced by an Option Agreement are exercised, the Plan Sponsor shall deliver a new Option Agreement evidencing the Option on the remaining shares upon delivery of the Option Agreement for the Option being exercised.

4.6 ***Payment of the Exercise Price.*** The exercise price shall be paid by any of the following methods or any combination of the following methods at the election of the Option Holder, or by any other method approved by the Committee upon the request of the Option Holder:

(a) in cash.

(b) by certified check, cashier's check or other check acceptable to the Plan Sponsor, payable to the order of the Plan Sponsor.

(c) by delivery to the Plan Sponsor of certificates representing the number of Shares then owned by the Option Holder, the Fair Market Value of which equals the purchase price of the Stock purchased pursuant to the Option, properly endorsed for transfer to the Plan Sponsor. No Option may be exercised by delivery to the Plan Sponsor of certificates representing Stock, unless such Stock has been held by the Option Holder for more than six months. The Fair Market Value of any Shares delivered in payment of the purchase price upon exercise of the Option under the Plan shall be the Fair Market Value as of the exercise date. The exercise date shall be the day of delivery of the certificates for the Stock used as payment of the Option Price.

(d) by delivery to the Plan Sponsor of a properly executed notice of exercise together with irrevocable instructions to a broker to deliver to the Plan Sponsor promptly the amount of the proceeds of the sale of all or a portion of the Stock or of a loan from the broker to the Option Holder required to pay the Option Price.

4.7 ***Withholding Requirement.*** The Plan Sponsor's obligations to deliver Shares upon the exercise of any Option shall be subject to the Participant's satisfaction of all applicable federal, state and local income and other tax withholding requirements.

(a) **Non-Qualified Options.** Upon exercise of an Option, the Option Holder shall make appropriate arrangements with the Company to provide for the amount of additional withholding required by Code §§ 3102 and 3402 and applicable state income tax laws, including payment of such taxes through delivery of Shares or by withholding Stock to be issued under the Option.

(b) **Incentive Options.** If an Option Holder makes a disposition (as defined in Code § 424(c)) of any Stock acquired pursuant to the exercise of an Incentive Option prior to the expiration of two years from the date on which the Incentive Option was granted or prior to the expiration of one year from the date on which the Option was exercised, the Option Holder shall send written notice to the Company at the Company's principal place of business of the date of such disposition, the number of shares disposed of, the amount of proceeds received from such disposition and any other information relating to such disposition as the Company may reasonably request. The Option Holder shall, in the event of such a disposition, make appropriate arrangements with the Company to provide for the amount of additional withholding, if any, required by Code §§ 3102 and 3402 and applicable state income tax laws.

4.8 ***Withholding With Stock.*** The Committee may, in its sole discretion, grant the Participant an election to pay all such amounts of tax withholding, or any part thereof, by electing to transfer to the Plan Sponsor, or to have the Plan Sponsor withhold from shares otherwise issuable to the Participant, Shares having a value equal to the amount required to be withheld or such lesser amount as may be elected by the Participant. All elections shall be subject to the approval or disapproval of the Committee. The value of Shares to be withheld shall be based on the Fair Market Value of the Stock on the date that the amount of tax to be withheld is to be determined (the "Tax Date"). Any such elections by Participants to have Shares withheld for this purpose will be subject to the following restrictions:

(a) All elections must be made prior to the Tax Date.

(b) All elections shall be irrevocable.

(c) If the Participant is an officer or director of the Plan Sponsor within the meaning of Section 16 of the 1934 Act ("Section 16"), the Participant must satisfy the requirements of such Section 16 and any applicable Rules thereunder with respect to the use of Stock to satisfy such tax withholding obligation.

4.9 ***Shareholder Privileges.*** No Option Holder shall have any rights as a shareholder with respect to any Shares covered by an Option until the Option Holder becomes the holder of record of such Stock, and no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date such Option Holder becomes the holder of record of such Stock, except as provided in the Plan.

4.10 ***Change in Control.***

(a) Unless otherwise determined by the Committee (either at the time an Option is granted or by subsequent action), the Options shall not be subject to accelerated vesting at the time of a Change in Control.

(b) Upon the consummation of a Change in Control, all outstanding Options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in effect pursuant to the terms of the Change in Control transaction. An Option Holder may make an irrevocable election to exercise an Option that is contingent upon and effective as of the effective date of the Change in Control.

(c) Each Option which is assumed in connection with a Change in Control or otherwise continued in effect shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to the Option Holder in consummation of such Change in Control, had the Option been exercised immediately prior to the Change in Control. Appropriate adjustments shall also be made to (i) the number and class of securities available for issuance under the Plan following the consummation of the Change in Control and (ii) the exercise price payable per share under each outstanding Option, provided the aggregate exercise price payable for such securities shall remain the same. To the extent the actual holders of the Company's outstanding Stock receive cash consideration for their Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption of the outstanding options under this Plan, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per Share in such Change in Control.

(d) The Committee shall have the discretion, exercisable either at the time the Option is granted or at any time while the Option remains outstanding, to structure one or more Options so that those Options shall automatically accelerate and vest in full upon the occurrence of a Change in Control, whether or not those Options are to be assumed in the Change in Control or otherwise continued in effect.

(e) The portion of any Incentive Option accelerated in connection with a Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable $100,000 limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such Option shall be exercisable as a Non-Qualified Option under the federal tax laws.

ARTICLE V
RESTRICTED STOCK

5.1 ***Persons Eligible***. The Committee, in its sole discretion, may grant a Participant one or more Restricted Stock Awards consisting of Shares. The number of Shares granted as a Restricted Stock Award shall be determined by the Committee.

5.2 ***Terms of Award.*** The Committee shall determine at the time of the grant of a Restricted Stock Award any other terms that will apply to the Restricted Stock Award. Each Restricted Stock Award granted under the Plan shall be evidenced by a written restricted stock agreement (a "Restricted Stock Award Agreement"). A Restricted Stock Award Agreement shall be issued by the Plan Sponsor in the name of the Participant and in such form as may be approved by the Committee. The Restricted Stock Award Agreement shall incorporate and conform to the conditions in the Plan as well as any other terms and conditions that are not inconsistent as the Committee may consider appropriate. In the event of any inconsistency between the provisions of the Plan and any Restricted Stock Award Agreement, the provisions of the Plan shall govern.

(a) ***Number of Shares of Restricted Stock.*** Each Restricted Stock Award Agreement shall state that it covers a specified number of Shares, as determined by the Committee.

(b) ***Restrictions.*** The Restricted Stock Award Agreement shall set forth the vesting restrictions as may be determined by the Committee. Each Share of Restricted Stock shall vest over such period of time, if any, or upon such events, as determined by the Committee. If no restrictions are stated in the Restricted Stock Award Agreement, 20% of the Award shall vest on the 1st anniversary of the date of grant and an additional 20% of the Award shall vest on each subsequent anniversary of the date of grant, so that the Award is 100% vested on the 5th anniversary of the date of the Award.

(c) ***Termination of Services, Death, or Disability.*** Unless the Restricted Stock Award Agreement provides otherwise, if a Participant terminates service for any reason, including death or Disability, the remaining unvested Award at the date of termination shall be forfeited and shall be immediately returned to the Company.

5.3 ***Privileges of a Stockholder, Transferability.*** Subject to the terms of the Restricted Stock Award Agreement, a Participant shall have all voting, dividend, liquidation and other rights with respect to Stock held pursuant to the Restricted Stock Award Agreement upon the Participant's becoming the holder of record of such Stock, except that the Participant may not have the right to sell, encumber, or otherwise transfer such Stock until the restrictions lapse.

5.4 ***Enforcement of Restrictions.*** The Committee shall cause a legend to be placed on the Stock certificates issued pursuant to each Restricted Stock Award referring to the restrictions of this Article and, in addition, may in its sole discretion require one or more of the following methods of enforcing the restrictions of this Article:

(a) Requiring the Participant to keep the Stock certificates, duly endorsed, in the custody of the Company while the restrictions remain in effect; or

(b) Requiring that the Stock certificates, duly endorsed, be held in the custody of a third party while the restrictions remain in effect.

Any new, substituted, or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant’s unvested Restricted Stock Award by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the Stock as a class without the Company’s receipt of consideration shall be issued subject to (i) the same vesting requirements applicable under the Participant’s Restricted Stock Award Agreement and (ii) such escrow arrangements as the Committee shall deem appropriate.

5.5 ***Withholding Requirement.*** Upon satisfaction of all restrictions under a Restricted Stock Award Agreement, the Participant is subject to and shall be required to pay to the Company all taxes required to be withheld, all government mandated social benefit contributions, and any other payments required to be withheld which are applicable to the Participant.

5.6 ***Change in Control.*** Unless otherwise determined by the Committee (either at the time a Restricted Stock Award is granted or by subsequent action), Restricted Stock Awards shall not be subject to accelerated vesting at the time of a Change in Control. Upon the consummation of a Change in Control, any Restricted Stock Award as to which the period for which services are required or other restrictions have not been satisfied (or waived or accelerated) shall be forfeited, and all Shares related thereto shall be immediately returned to the Company, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in effect pursuant to the terms of the Change in Control transaction.

The Committee shall have the discretion, exercisable either at the time the Restricted Stock Award is granted or at any time while the Restricted Stock Award remains outstanding, to structure one or more Restricted Stock Awards so that those Restricted Stock Awards shall automatically accelerate and vest in full upon the occurrence of a Change in Control, whether or not those Restricted Stock Awards are to be assumed in the Change in Control or otherwise continued in effect.

ARTICLE VI
RESTRICTED STOCK UNITS

6.1 ***Grant of RSUs.*** A Participant may be granted one or more Restricted Stock Units as determined by the Committee. Restricted Stock Units shall be granted as of the date specified in the RSU Agreement. RSUs granted may be 100% vested on the date the Award is granted, or they may be subject to a vesting schedule. Each Award shall be separately approved by the Committee, and the receipt of one Award shall not result in automatic receipt of any other Award. Upon determination by the Committee to grant Restricted Stock Units to a Participant, the Company, by action of the Committee, shall enter into an RSU Agreement with the Participant.

6.2 ***RSU Agreements.*** Each Award granted under the Plan shall be evidenced by a written restricted stock unit agreement (an "RSU Agreement"). An RSU Agreement shall be issued by the Plan Sponsor in the name of the Participant to whom the Award is granted and in such form as may be approved by the Committee. The RSU Agreement shall incorporate and conform to the conditions in the Plan as well as any other terms and conditions that are not inconsistent as the Committee may consider appropriate.

(a) ***Number of RSUs.*** Each RSU Agreement shall state that it covers a specified number of RSUs, as determined by the Committee.

(b) ***Restrictions.*** The RSU Agreement shall set forth the vesting restrictions as may be determined by the Committee. Each RSU shall vest over such period of time, if any, or upon such events, as determined by the Committee, in a manner that does not cause adverse tax consequences under Code § 409A. If no restrictions are stated in the RSU Agreement, 20% of the Award shall vest on the 1st anniversary of the date of grant and an additional 20% of the Award shall vest on each subsequent anniversary of the date of grant, so that the Award is 100% vested on the 5th anniversary of the date of the Award.

(c) ***Termination of Services, Death, or Disability.*** Unless the RSU Agreement provides otherwise, if a Participant terminates service for any reason, including death or Disability, the remaining unvested Award at the date of termination shall be forfeited and shall be immediately returned to the Company.

6.3 ***Non-Transferability of RSUs***. No RSU shall be assignable or transferable during the lifetime of the Participant, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of an RSU Holder's death, an RSU Holder's RSUs shall be automatically transferred to the RSU Holder's beneficiary designated in accordance with Section 6.4, or if the RSU Holder did not designate a beneficiary, or if no beneficiary survives the RSU Holder, the RSU Holder's legal representatives, heirs or legatees.

6.4 ***Designation of Beneficiary***. Each RSU Holder may designate one or more beneficiaries (who may be designated contingently or successively) to whom the RSU payment is payable in the event of the RSU Holder's death. Each designation will automatically revoke any prior designations by the same RSU Holder. The beneficiary designation shall be in writing on a form prescribed by the Committee. Any beneficiary designation will be effective as of the date on which the written designation is received by the Committee during the lifetime of the RSU Holder. If the RSU Holder does not designate a beneficiary, or if a beneficiary does not survive the RSU Holder, the cash payment (or the portion of the cash payment attributable to a deceased beneficiary) shall be payable to the RSU Holder's estate.

6.5 ***Redemption of RSUs.*** As of the date an RSU is vested, the Company shall redeem the RSU. In no event shall the redemption of RSUs granted under one RSU Agreement affect the redemption of any RSUs under the same RSU Agreement or any other RSU Agreement or affect the number of RSUs which may be redeemed. Following redemption of all RSUs granted under an RSU Agreement, the RSU Agreement shall be terminated.

(a) **Amount of RSU Payment.** If the RSU Agreement specifies that payment of the RSU shall be made in cash, the Plan Sponsor (or the Affiliated Corporation utilizing the services of the RSU Holder) shall make a cash payment for each RSU equal to the Fair Market Value of a Share on the date the RSU is vested, less any withholdings (as determined under Section 6.7). If the RSU Agreement specifies that payment of the RSU shall be made in Shares, the Plan Sponsor (or the Affiliated Corporation utilizing the services of the RSU Holder) shall deliver one Share for each RSU to the RSU Holder, less any withholdings (as determined under Section 6.7). The Plan Sponsor has the right to reduce any payment due under the Plan by any amounts owed by the RSU Holder to the Company. The amount of any cash payment shall be calculated and paid in United States dollars.

(b) **Timing of Payment.** Unless the RSU Agreement provides otherwise, the Plan Sponsor (or the Affiliated Corporation utilizing the services of the RSU Holder) shall make any cash payment in a single sum payment as soon as administratively practicable (in accordance with procedures established by the Committee) after the receipt by the Plan Sponsor of all representations requested by the Committee pursuant to Section 12.1, but in no event later than the 15th day of the third month following the end of the calendar year in which the RSU vests. Unless the RSU Agreement provides otherwise, the Plan Sponsor (or the Affiliated Corporation utilizing the services of the RSU Holder) shall deliver any Stock payment as soon as administratively practicable (in accordance with procedures established by the Committee) after the receipt by the Plan Sponsor of all representations requested by the Committee pursuant to Article XI, but in no event later than the 15th day of the third month following the end of the calendar year in which the RSU vests.

(c) **Cancellation of RSUs Redeemed.** Upon redemption of an RSU, the RSU Holder no longer has any rights to any increase in value of the RSU, and the Participant's RSUs which were redeemed are canceled.

6.6 ***Cancellation of RSUs Upon Termination of Service.***

(a) **Termination of Services for Any Reason.** If an RSU Holder voluntarily terminates service or is terminated involuntarily from service for any reason other than death (including retirement or disability), all unvested RSUs shall be forfeited.

(b) **Definition of Termination of Services.** Termination of services occurs as of the first day on which the RSU Holder is no longer performing services for the Company or any entity related to the Company. Whether an RSU Holder has terminated service shall be determined by the Committee in its sole discretion.

6.7 ***Withholding Requirement.*** All payments under the Plan are subject to withholding of all taxes, government mandated social benefit contributions, or other payments required to be withheld which are applicable to the RSU Holder.

6.8 ***No Equity Holder Privileges.*** No RSU Holder shall have any privileges as an equity holder with respect to any RSUs.

6.9 ***Change in Control.*** Unless otherwise determined by the Committee (either at the time a RSU is granted or by subsequent action that does not cause adverse tax consequences under Code § 409A), RSUs shall not be subject to accelerated vesting at the time of a Change in Control. Upon the consummation of a Change in Control, any RSU as to which the period for which services are required or other restrictions have not been satisfied (or waived or accelerated) shall be forfeited, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in effect pursuant to the terms of the Change in Control transaction.

The Committee shall have the discretion at the time the RSU is granted (or at any time the RSU remains outstanding, if the action subsequent to the grant date does not cause adverse tax consequences under Code § 409A) to structure one or more RSUs so that those RSUs shall automatically accelerate and vest in full upon the occurrence of a Change in Control, whether or not those RSUs are to be assumed in the Change in Control or otherwise continued in effect.

ARTICLE VII
STOCK APPRECIATION RIGHTS

7.1 ***Persons Eligible***. The Committee, in its sole discretion, may grant a Participant one or more Stock Appreciation Rights.

7.2 ***Types of Stock Appreciation Rights***. The Committee may grant Stock Appreciation Rights that are settled in cash under the Plan, or Stock Appreciation Rights that are settled in Stock.

7.3 ***Terms of Grant.*** The Committee shall determine at the time of the grant of a Stock Appreciation Right the time period during which the Stock Appreciation Right may be exercised, the type of Stock Appreciation Right being granted, and any other terms that will apply to the Stock Appreciation Right. Each Stock Appreciation Right granted under the Plan shall be evidenced by a written stock appreciation right agreement (a "SAR Agreement"). A SAR Agreement shall be issued by the Plan Sponsor in the name of the SAR Holder and in such form as may be approved by the Committee. The SAR Agreement shall incorporate and conform to the conditions in the Plan as well as any other terms and conditions that are not inconsistent as the Committee may consider appropriate. In the event of any inconsistency between the provisions of the Plan and any Option Agreement, the provisions of the Plan shall govern.

(a) ***Number of SARs.*** Each SAR Agreement shall state that it covers a specified number of Stock Appreciation Rights, as determined by the Committee.

(b) ***Stock Price for Determining Appreciation.*** Each SAR Agreement shall state the Fair Market Value of a Share from which appreciation of the SAR will be measured. The Stock price specified shall not be less than 100% of the Fair Market Value of the Stock on the date the SAR is granted.

(c) ***Duration of SARs.*** Each SAR Agreement shall state the period of time, determined by the Committee, within which the SAR may be exercised by the SAR Holder (the "SAR Period"). The SAR Period must end not more than ten years from the date the SAR is granted. If no SAR Period is stated in the SAR Agreement, the SAR Period shall end on the day immediately preceding the 10th anniversary of the date of grant.

(d) ***Restrictions on Exercise.*** The SAR Agreement shall also set forth any restrictions on SAR exercise during the SAR Period, if any, as may be determined by the Committee. Each SAR shall become exercisable (vest) over such period of time, if any, or upon such events, as determined by the Committee. If the SAR Agreement does not specify the period of time over which the SAR becomes exercisable, the SAR shall become exercisable (vest) 20% on each subsequent anniversary date of the SAR grant, so that the SAR is 100% exercisable (vested) on the 5th anniversary of the date of the SAR grant.

(e) ***Termination of Services, Death, or Disability.*** The Committee may specify the period, if any, after which an SAR may be exercised following termination of the SAR Holder's services in the SAR Agreement. If the SAR Agreement does not specify the period of time following termination of service during which SARs may be exercised, the time periods in this Subsection shall apply. Once a SAR is granted, the Committee may not change the time period during which a SAR may be exercised following termination of the SAR Holder's services, unless such a change would not cause additional taxes to be imposed pursuant to Code § 409A.

(i) **Termination for Cause.** If the services of the SAR Holder are terminated within the SAR Period for Cause, as determined by the Company, the SAR shall thereafter be void for all purposes.

(ii) **Disability.** If the SAR Holder becomes Disabled and terminates services, the SAR may be exercised by the SAR Holder within six months following the SAR Holder's termination of services on account of Disability (provided that such exercise must occur within the SAR Period), but not thereafter. The SAR may be exercised only with respect to the extent the SAR had become exercisable on or before the date of the SAR Holder's termination of services because of Disability.

(iii) **Death.** If the SAR Holder dies during the SAR Period while still performing services for the Company or within the six month period referred to in (ii) above or the three-month period referred to in (iv) below, the SAR may be exercised by those entitled to do so under the SAR Holder's will or by the laws of descent and distribution within six months following the SAR Holder's death, (provided that such exercise must occur within the SAR Period), but not thereafter. The SAR may be exercised only to the extent the SAR had become exercisable on or before the date of the SAR Holder's termination of services because of the SAR Holder's death.

(iv) **Termination for Reasons Other than Cause, Disability or Death.** If the SAR Holder is no longer employed by the Company or performing services for the Company for any reason other than Cause, Disability or the SAR Holder's death, the SAR may be exercised by the SAR Holder within three months following the date of termination (provided that the exercise must occur within the SAR Period), but not thereafter. The SAR may be exercised only to the extent the SAR had become exercisable on or before the date of termination of services.

7.4 ***Exercise of Stock Appreciation Rights***. Upon vesting in a Stock Appreciation Right, a Participant shall be permitted to exercise the Stock Appreciation Right at any time prior to the date the Stock Appreciation Right expires. The effective date of exercise of a Stock Appreciation Right is the date on which the Company receives notice from the Participant of the exercise of the Stock Appreciation Right. Upon the exercise of one or more Stock Appreciation Rights settled in Stock, the Company will issue to the Participant the number of whole Shares determined by dividing (i) the number of Stock Appreciation Rights being exercised, multiplied by the difference in the Fair Market Value of one Share on the exercise date of the Stock Appreciation Right and the Fair Market Value of one Share on the grant date in the Stock Appreciation Right by (ii) the Fair Market Value of one Share on the exercise date. Upon exercise of one or more Stock Appreciation Rights settled in cash, the Company shall make a cash payment to the Participant in an amount equal to the total number of vested Stock Appreciation Rights, multiplied by the difference in the Fair Market Value of one Share on the grant date of the Stock Appreciation Right and the Fair Market Value of one Share on the date of exercise, less any withholdings.

7.5 ***Withholding Requirement.*** All payments under the Plan are subject to withholding of all taxes, government mandated social benefit contributions, or other payments required to be withheld which are applicable to the Participant.

7.6 ***Effect of Exercise.*** The exercise or cash-out of a Stock Appreciation Right will result in an equal reduction in the number of Stock Appreciation Rights that were granted.

7.7 ***No Equity Holder Privileges.*** No holder of a Stock Appreciation Right shall have any privileges as an equity holder with respect to any Stock Appreciation Rights.

7.8 ***Change in Control.*** Unless otherwise determined by the Committee (either at the time a SAR is granted or by subsequent action), SARs shall not be subject to accelerated vesting at the time of a Change in Control. Upon the consummation of a Change in Control, any SAR as to which the period for which services are required or other restrictions have not been satisfied (or waived or accelerated) shall be forfeited, except to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in effect pursuant to the terms of the Change in Control transaction.

The Committee shall have the discretion, exercisable either at the time the SAR is granted or at any time while the SAR remains outstanding, to structure one or more SARs so that those SARs shall automatically accelerate and vest in full upon the occurrence of a Change in Control, whether or not those SARs are to be assumed in the Change in Control or otherwise continued in effect.

ARTICLE VIII
STOCK BONUSES AND OTHER COMMON STOCK GRANTS

The Committee may award Stock Bonuses to such Participants, subject to such conditions and restrictions, as it determines in its sole discretion. Stock Bonuses may be either outright grants of Stock, or may be grants of Stock subject to and conditioned upon certain employment or performance related goals.

From time to time during the duration of this Plan, the Board may, in its sole discretion, adopt one or more incentive compensation arrangements for Participants pursuant to which the Participants may acquire Shares, whether by purchase, outright grant, or otherwise. Any such arrangements shall be subject to the general provisions of this Plan and all Shares issued pursuant to such arrangements shall be issued under this Plan.

ARTICLE IX
PERFORMANCE AWARDS

9.1 ***Performance-Based Awards.*** The Company intends that performance-based Awards to certain Eligible Employees will satisfy the performance-based compensation requirements of Code § 162(m) so that the Company may deduct any compensation paid under the Plan for federal income tax purposes without limitation under Code § 162(m). If any provision of this Plan or any Award Agreement would otherwise frustrate or conflict with such intent, that provision, to the extent possible, shall be interpreted and deemed amended so as to avoid such conflict.

9.2 ***Grants of Performance-Based Awards.*** The Committee may grant Performance Awards that grant a specific number of Options, SARs, shares of Restricted Stock, or Restricted Stock Units that vest in whole or in part upon satisfaction of specified performance goals. The Committee may also grant Awards that require the Committee to grant a specific number of shares of Stock, Options, SARs, shares of Restricted Stock, or Restricted Stock Units upon satisfaction of specified performance goals. The Committee shall, in its sole discretion, determine: (a) the type of performance-based Awards to be made, (b) the time at which performance-based Awards are to be made, (c) the time at which the performance-based Awards vest or shares are granted under performance-based Awards, (d) actual performance against targets for purposes of performance-based Award vesting or granting of Awards, (e) specific weighing of the components of performance-based Award vesting or grants, and (f) establish such other terms under the Plan as the Committee may deem necessary or desirable and consistent with the terms of the Plan. The Committee shall have the full and exclusive right to grant and determine terms and conditions of all performance-based Awards granted under the Plan. The performance goal or goals for a Performance Award shall be established in writing at the time the Performance Award is granted. The Committee shall have no power to increase a performance-based Award that has been granted, but shall have the power to decrease a performance-based Award.

9.3 ***Award Agreements.*** Award Agreements that are intended to comply with Code § 162(m) shall specify the target number of Shares for the Participant. The maximum vesting for a performance-based Award shall be 100% of the Award. No performance-based Award shall entitle the Participant to receive more than the maximum number of Shares in any calendar year set forth in Article III. Performance-based Awards to all Participants for any calendar year shall not exceed the maximum number of Shares set forth in Article III.

9.4 ***Preestablished Performance Goals.*** The performance criteria for any Award that is intended to satisfy the requirements for "performance-based compensation" under Code § 162(m) shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Performance Award is granted. For purposes of this Plan, the term "Qualifying Performance Criteria" shall mean any one or more of the following performance criteria, either individually or in any combination, applied to either the Company as a whole or to a business unit or Affiliated Corporation, either individually or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee in the performance-based Award: (a) cash flow, (b) earnings per share, (c) earnings before interest, taxes and amortization, (d) return on equity, (e) total stockholder return, (f) share price performance, (g) return on capital, (h) return on assets or net assets, (i) revenue, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin or profit margin, (n) return on operating revenue, (o) return on invested capital, (q) product release schedules, and (r) new product innovation. The Committee may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) any extraordinary non-recurring items as described in management's discussion and analysis of financial condition and results of operations appearing in the Company's Securities Exchange Act filings.

9.5 ***Committee Certification.*** Notwithstanding satisfaction of any Qualifying Performance Criteria, the number of Stock, Options, SARs, or RSUs under a performance-based Award to be granted or vested on account of satisfaction of such Qualifying Performance Criteria may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine. The Participant shall not be entitled to vest in or be granted any portion of a performance-based Award until the Committee certifies in writing that the Holder has met his or her specific performance goals and determines the portion of the performance-based Award which is to be vested or granted.

ARTICLE X
PLAN ADMINISTRATION

10.1 ***Committee.*** The Plan shall be administered by a Committee appointed by and serving at the pleasure of the Board of Directors, consisting of not less than two Directors (the "Committee") and, at any time when the Plan Sponsor is a publicly held corporation, consisting solely of outside Directors (within the meaning of Code § 162(m)(4)(C)(i)). The Board of Directors may from time to time remove members from or add members to the Committee, and vacancies on the Committee, howsoever caused, shall be filled by the Board of Directors. At any time when the Plan Sponsor is a publicly held corporation, the Committee shall be so constituted at all times as to permit the Plan to comply with Rule 16b-3 or any successor rule promulgated under the Securities Exchange Act of 1934 (the "1934 Act") and to permit Awards to comply with the performance based compensation exception of Code § 162(m). Members of the Committee and any subcommittee or special committee shall be appointed from time to time by the Board, shall serve at the pleasure of the Board and may resign at any time upon written notice to the Board.

10.2 ***Committee Meetings and Actions.*** The Committee shall hold meetings at such times and places as it may determine. A majority of the members of the Committee shall constitute a quorum, and the acts of the majority of the members present at a meeting or a consent in writing signed by all members of the Committee shall be the acts of the Committee and shall be final, binding and conclusive upon all persons, including the Company, its shareholders, and all persons having any interest in Options which may be or have been granted pursuant to the Plan.

10.3 ***Powers of Committee.*** In accordance with the provisions of the Plan, the Committee shall, in its sole discretion, select the Participants from among the Eligible Employees and Eligible Individuals, determine the Awards to be made pursuant to the Plan, and the time at which such Awards are to be made, fix the exercise price, period and manner in which an Option or SAR becomes exercisable, and establish such other terms under the Plan as the Committee may deem necessary or desirable and consistent with the terms of the Plan. The Committee shall determine the form or forms of the agreements with Participants that shall evidence the particular provisions, terms, conditions, rights and duties of the Plan Sponsor and the Participants with respect to Awards granted pursuant to the Plan, which provisions need not be identical except as may be provided herein. The Committee shall have the full and exclusive right to grant and determine terms and conditions of all Awards granted under the Plan. In granting Awards, the Committee shall take into consideration the contribution the Participant has made or may make to the success of the Company or its subsidiaries and such other factors as the Committee shall determine. The Committee may from time to time adopt such rules and regulations for carrying out the purposes of the Plan as it may deem proper and in the best interests of the Company. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any agreement entered into hereunder in the manner and to the extent it shall deem expedient and it shall be the sole and final judge of such expediency. No member of the Committee shall be liable for any action or determination made in good faith. The determinations, interpretations and other actions of the Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons.

10.4 ***Options May Be Assumed.*** In accordance with the provisions of Code § 424(a), the Committee may, in its sole discretion, substitute a new Option for an outstanding option or assume an outstanding option in connection with a Corporate Transaction, without the substitution or assumption being treated as a modification of the existing incentive stock option under Code § 424(h) or a modification of an existing option under Code § 409A. If the new substituted Option or assumed Option is intended to be an Incentive Option, the provisions of this Section apply solely to an Eligible Employee who is providing services to the Company at the time of the substitution or assumption (or a former Eligible Employee within the 3-month period following termination of service). For purposes of this Section, the term “Corporate Transaction” includes: (a) a corporate merger, consolidation, acquisition of property or stock, separation, reorganization, or liquidation; (b) a distribution (excluding an ordinary dividend or a stock split or stock dividend described in Treas. Reg. § 1.424-1(e)(4)(v)) or change in the terms or number of outstanding shares of such corporation; and (c) any other corporate events prescribed by the Commissioner in published guidance.

10.5 ***Interpretation of Plan.*** The determination of the Committee as to any disputed question arising under the Plan, including questions of construction and interpretation, shall be final, binding and conclusive upon all persons, including the Company, its shareholders, and all persons having any interest in Options which may be or have been granted pursuant to the Plan. Stock Options, Stock Appreciation Rights, Restricted Stock grants, and Stock grants are intended to be excluded from the requirements of Code § 409A as a result of the exception for stock rights and the exception for transfers of property subject to § 83. Restricted Stock Unit grants are intended to be excluded from the requirements of Code § 409A under the short-term deferral exception. To the extent that any provision of the Plan or of any grant Agreement could be interpreted otherwise, the Plan and all grant Agreements shall be interpreted in a manner that ensures all grants are excluded from the requirements of Code § 409A. The Company will amend the Plan as necessary to ensure exclusion of Awards from the requirements of Code § 409A, or to the extent necessary or appropriate, to comply with the requirements of Code § 409A.

10.6 ***Indemnification.*** Each person who is or shall have been a member of the Committee or of the Board of Directors shall be indemnified and held harmless by the Plan Sponsor against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid in settlement thereof, with the Company's approval, or paid in satisfaction of a judgment in any such action, suit or proceeding against him, provided such person shall give the Company an opportunity, at its own expense, to handle and defend the same before undertaking to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of, and is in addition to, any other rights of indemnification to which any person may be entitled under the Plan Sponsor's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

ARTICLE XI
STOCK SUBJECT TO THE PLAN

11.1 ***Number of Shares.*** The number of Shares that are authorized for issuance under the Plan in accordance with the provisions of the Plan and subject to such restrictions or other provisions as the Committee may from time to time deem necessary shall not exceed 6,000,000, subject to the provisions regarding changes in capital. The Shares may be either authorized and unissued Shares or previously issued Shares acquired by the Plan Sponsor. This authorization may be increased from time to time by approval of the Board and by the stockholders of the Plan Sponsor if, in the opinion of counsel for the Plan Sponsor, stockholder approval is required. Shares that may be issued upon exercise of Options under the Plan shall be applied to reduce the maximum number of Shares remaining available for use under the Plan. The Plan Sponsor shall at all times during the term of the Plan and while any Awards are outstanding retain as authorized and unissued Stock at least the number of Shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

11.2 ***Unused Stock.*** Any Shares that are subject to an Award that expires or for any reason is terminated and any Shares withheld for the payment of taxes or received by the Plan Sponsor as payment of the exercise price of an Award shall automatically become available for use under the Plan.

11.3 ***Adjustments for Stock Splits and Stock Dividends.*** If the Plan Sponsor shall at any time increase or decrease the number of its outstanding Shares or change in any way the rights and privileges of such Shares by means of the payment of a stock dividend or any other distribution upon such Shares payable in Stock, or through a stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock, then in relation to the Stock that is affected by one or more of the above events, the numbers, rights and privileges of the following shall be increased, decreased or changed in like manner (in accordance with the rules governing modifications, extensions, substitutions and assumptions of stock rights described in Treas. Reg. § 1.409A-1(b)(5)(v)(D)) as if they had been issued and outstanding, fully paid and nonassessable at the time of such occurrence: (i) the Shares as to which Awards may be granted under the Plan and (ii) the Shares then included in each outstanding Award granted hereunder.

11.4 ***Other Distributions and Changes in the Stock.*** If the Plan Sponsor distributes assets or securities of persons other than the Plan Sponsor (excluding cash or distributions referred to in Section 11.3) with respect to the Stock, or if the Plan Sponsor grants rights to subscribe pro rata for additional Shares or for any other securities of the Plan Sponsor to the holders of its Stock, or if there is any other change (except as described in Section 11.3) in the number or kind of outstanding Shares or of any stock or other securities into which the Stock will be changed or for which it has been exchanged, and if the Committee in its discretion determines that the event equitably requires an adjustment in the number or kind of Shares subject to an Award, an adjustment in the exercise price or the taking of any other action by the Committee, including without limitation, the setting aside of any property for delivery to the Participant upon the exercise of an Award or the full vesting of an Award, then such adjustments shall be made, or other action shall be taken, by the Committee (in accordance with the rules governing modifications, extensions, substitutions and assumptions of stock rights described in Treas. Reg. § 1.409A-1(b)(5)(v)(D)) and shall be effective for all purposes of the Plan and on each outstanding Award.

11.5 ***General Adjustment Rules.*** No adjustment or substitution provided for in this Article shall require the Plan Sponsor to sell a fractional Share under any Award, or otherwise issue a fractional Share, and the total substitution or adjustment with respect to each Award shall be limited by deleting any fractional Share. In the case of any such substitution or adjustment, the aggregate exercise price for the total number of Shares then subject to an Option shall remain unchanged but the exercise price per Share under each such Option shall be equitably adjusted by the Committee to reflect the greater or lesser number of Shares or other securities into which the Stock subject to the Option may have been changed, and appropriate adjustments shall be made to other Awards to reflect any such substitution or adjustment. In the case of any such substitution or adjustment, such Option shall be equitably adjusted by the Committee in accordance with the rules governing modifications, extensions, substitutions and assumptions of stock rights described in Treas. Reg. § 1.409A-1(b)(5)(v)(D).

11.6 ***Determination by the Committee.*** Adjustments under this Article shall be made by the Committee, whose determinations shall be final and binding upon all parties.

ARTICLE XII
GENERAL RESTRICTIONS

12.1 ***Investment Representations.*** The Plan Sponsor may require any person to whom an Award is granted, as a condition of receiving Stock pursuant to the Award, to give written assurances in substance and form satisfactory to the Plan Sponsor and its counsel to the effect that such person is acquiring the Stock for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Plan Sponsor deems necessary or appropriate in order to comply with federal and applicable state securities laws. Legends evidencing such restrictions may be placed on the Stock certificates.

12.2 ***Compliance with Securities Laws.*** Each Award shall be subject to the requirement that, if at any time counsel to the Plan Sponsor shall determine that the listing, registration or qualification of the Shares subject to such Award upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance or purchase of shares thereunder, such Award may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Plan Sponsor to apply for or to obtain such listing, registration or qualification.

12.3 ***Changes in Accounting Rules.*** Except as provided otherwise at the time an Award is granted, notwithstanding any other provision of the Plan to the contrary, if, during the term of the Plan, any changes in the financial or tax accounting rules applicable to Awards shall occur which, in the sole judgment of the Committee, may have a material adverse effect on the reported earnings, assets or liabilities of the Plan Sponsor, the Committee shall have the right and power to modify as necessary, any then outstanding Awards as to which the applicable services or other restrictions have not been satisfied.

12.4 ***Shareholders Agreement.*** Upon demand by the Plan Sponsor, the Participant shall execute and deliver to the Plan Sponsor a shareholders agreement in such form as the Company may provide at the time of the Participant is receiving Stock pursuant to the Plan ("Shareholders Agreement"). The Shareholders Agreement may include, without limitation, restrictions upon the Participant's right to transfer shares, including the creation of an irrevocable right of first refusal in the Plan Sponsor and its designees, and provisions requiring the Participant to transfer the Shares to the Plan Sponsor or the Plan Sponsor's designees upon a termination of employment. Upon such demand, execution of the Shareholders Agreement by the Participant prior to the transfer or delivery of any shares and prior to the expiration of the option period shall be a condition precedent to the right to purchase such Shares, unless such condition is expressly waived in writing by the Plan Sponsor.

ARTICLE XIII
REQUIREMENTS OF LAW

13.1 ***Requirements of Law.*** The issuance of Stock and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules and regulations.

13.2 ***Federal Securities Law Requirements.*** If a Participant is an officer or director of the Plan Sponsor within the meaning of Section 16, Awards granted hereunder shall be subject to all conditions required under Rule 16b-3, or any successor rule promulgated under the 1934 Act, to qualify the Award for any exception from the provisions of Section 16(b) of the 1934 Act available under that Rule. Such conditions shall be set forth in the agreement with the Participant which describes the Award or other document evidencing or accompanying the Award.

13.3 ***Governing Law.*** The Plan and all agreements hereunder shall be construed in accordance with and governed by the laws of the State of Colorado.

ARTICLE XIV
PLAN AMENDMENT, MODIFICATION AND TERMINATION

The Board may at any time terminate, and from time to time may amend or modify the Plan provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the shareholders if shareholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements, or if the Plan Sponsor, on the advice of counsel, determines that shareholder approval is otherwise necessary or desirable.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Award previously granted under the Plan, without the consent of the Participant holding such Award.

ARTICLE XV
MISCELLANEOUS

15.1 ***Gender and Number.*** Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

15.2 ***No Right to Continued Employment***. Nothing contained in the Plan or in any Award granted under the Plan shall confer upon any Participant any right with respect to the continuation of his employment by, or consulting relationship with, the Company, or interfere in any way with the right of the Company, subject to the terms of any separate employment agreement or other contract to the contrary, at any time to terminate such services or to increase or decrease the compensation of the Participant from the rate in existence at the time of the grant of an Award. Nothing in this Plan shall limit or impair the Company's right to terminate the employment of any employee, to terminate the consulting services of any consultant, or to terminate the services of any director. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of service shall be determined by the Committee at the time.

15.3 ***Nontransferability***. Except as provided otherwise at the time of grant or as otherwise provided in the Plan, no right or interest of any Participant in an Award granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Participant, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. In the event of a Participant's death, a Participant's rights and interests in Awards shall, to the extent provided in the Plan, be transferable by will or the laws of descent and distribution, and payment of any amounts due under the Plan shall be made to, and exercise of any Awards may be made by, the Participant's legal representatives, heirs or legatees. Notwithstanding the foregoing, the Option Holder may not transfer an Incentive Option during the Option Holder's lifetime. If in the opinion of the Committee a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator or other legal personal representative upon furnishing the Committee with evidence satisfactory to the Committee of such status.

15.4 ***No Plan Funding.*** Obligations to Participants under the Plan will not be funded, trusteed, insured or secured in any manner. The Participants under the Plan shall have no security interest in any assets of the Company, and shall be only general creditors of the Company.

15.5 ***Other Employee Benefits.*** The amount of any compensation deemed to be received by a Participant as a result of Awards under the Plan shall not constitute "earnings" or "compensation" with respect to which any other employee benefits of such employee are determined, including without limitation benefits under any pension, profit sharing, 401(k), life insurance or salary continuation plan.

IN WITNESS WHEREOF, the Plan Sponsor has caused this Plan to be duly executed, effective as of the Effective Date.

K-KITZ, INC.
Plan Sponsor

By: /s/ Jennifer Jarvis

Title: President, CEO, and CFO

Date: June 11, 2010

EXHIBIT 10.6

EMPLOYMENT AGREEMENT

This agreement made and entered into this 1st day of January, 2006 by and between Bacterin International, Inc., of Belgrade, MT, hereinafter referred to as "employer", and Guy Cook, of Bozeman, MT, hereinafter refereed to as "employee".
The parties recite that:

A. Employer is engaged in the coating of medical devices and maintains business premises at 600 Cruiser Lane, Belgrade, MT 59714.
B. Employee is willing to be employed by employer, and employer is willing to employ employee, on the terms and conditions hereinafter set forth.

For the reasons set forth above, and in consideration of the mutual covenants and promises of the parties hereto, employer and employee covenant and agree as follows:

AGREEMENT TO EMPLOY AND BE EMPLOYED

Employer hereby employs employee as CEO and President at the above-mentioned premises, and the employee hereby accepts and agrees to such employment.

DESCRIPTION OF EMPLOYEE'S DUTIES

Subject to the supervision and pursuant to the orders, advice, and direction of employer, employee shall perform such duties as are customarily performed by one holding such position in other businesses or enterprises of the same or similar nature as that engaged in by the employer. Employee shall additionally render such other and unrelated services and duties as may be assigned to him or her from time to time by employer.

MANNER OF PERFORMANCE OF EMPLOYEE'S DUTIES

Employee shall at all times faithfully, industriously, and to the best of his ability, experience, and talent, perform all duties that may be require of and from him or her pursuant to the express and implicit terms hereof, to the reasonable satisfaction of employer. Such duties shall be rendered at the above mentioned premises and at such other place or places as employer shall in good faith require or as the interests, needs, business, and opportunities of employer shall require or make advisable.

DURATION OF EMPLOYMENT

The term of employment shall commence on January 1, 2006. Voluntary termination is determined by the employee, but is subject, however, to termination procedures as provided in Section 8 and 9 hereof and in the Employee Handbook. This employment agreement ends Dec. 31, 2011.

COMPENSATION; REIMBURSEMENT

Employer shall pay employee and employee agrees to accept from employer, in full payment for employee's services hereunder, compensation at the rate of Twenty Thousand and 00/100's Dollars ($20,000) per month, payable bi-weekly, and commencing January 1, 2006. In addition to the foregoing, employer will reimburse for any and all necessary, customary, and usual expenses incurred by him or her while traveling for and on behalf of the employer pursuant to employer's directions.

INTELLECTUAL PROPERTY

The Company will be entitled to and will own all the results and proceeds of the Employee's services under this Agreement, including, without limitation, all rights throughout the world to any copyright, patent, trademark or other right and to all ideas, inventions, products, programs, procedures, formats and other materials of any kind created or developed or worked on by the Employee during his/her employment by the Company, and one year after termination, that pertains to Company business; the same shall be the sole and exclusive property of the Company; and the Employee will not have any right, title or interest of any nature or kind therein. Without limiting the foregoing, it will be presumed that any copyright, patent, trademark or other right and any idea, invention, product, program, procedure, format or material created, developed or worked on by the Employee at any time during the term of her employment will be a result or proceed of the Employee's services under this Agreement. The Employee will take such action and execute such documents as the Company may request to warrant and confirm the Company's title to and ownership of all such results and proceeds and to transfer and assign to the Company any rights which the Employee may have therein.

EMPLOYEE'S LOYALTY TO EMPLOYER'S INTERESTS

Employee shall devote all of his or her time, attention, knowledge, and skill solely and exclusively to the business and interests of employer, and employer shall be entitled to all benefits, emoluments, profits, or other issues arising from or incident to any and all work, services, and advice of employee. Employee expressly agrees that during the term hereof he or she will not be interested, directly or indirectly, in any form, fashion, or manner, as partner, officer, director, stockholder, advisor, employee, or in any form or capacity, in any other business similar to employer's business or any allied trade, except that nothing herein contained shall be deemed to prevent or limit the right of employee to invest any of his or her surplus funds in the capital stock or other securities of any corporation whose stock or securities are publicly owned or are regularly traded on any public exchange, nor shall anything herein contained by deemed to prevent employee from investing or limit employee's right to invest his or her surplus funds in real estate.

NONDISCLOSURE OF INFORMATION CONCERNING BUSINESS

Employee will not at any time, in any fashion, form, or manner, either directly or indirectly divulge, disclose, or communicate to any person, firm, or corporation in any manner whatsoever any information of any kind, nature, or description concerning any matters affecting or relating to the business of employer, including, without limitation, the names of any of it's customers, the prices it obtains or has obtained, or at which it sells or has sold its products, or any other information concerning the business of employer, its manner of operation, or its plans, processes, or other date of any kind, nature, or description without regard to whether any or all of the foregoing matters would be deemed confidential, material, or important. The parties hereby stipulate that, as between them, the foregoing matters are important, material, and confidential, and gravely affect the effective and successful conduct of the business of employer, and its good will, and that any breach of the terms of this section is a material breach of this agreement.

OPTION TO TERMINATE ON PERMANENT DISABILITY OF EMPLOYEE

Notwithstanding anything in this agreement to the contrary, employer is hereby given the option to terminate this agreement in the event that during the term hereof employee shall become permanently disabled, as the term "permanently disabled" is hereinafter fixed and defined. Such option shall be exercised by employer giving notice to employee by registered mail, addressed to him or her in care of employer at the above stated address, or at such other address as employee shall designate in writing, of its intention to terminate this agreement on the last day of the month during which such notice is mailed.

On the giving of such notice this agreement and the term hereof shall cease and come to an end on the last day of the month in which the notice is mailed, with the same force and effect as if such last day of the month were the date originally set forth as the termination date. For purposes of this agreement, employee shall be deemed to have become permanently disabled if, during any year of the term hereof, because of ill health, physical or mental disability, or for other causes beyond his or her control, he or she shall have been continuously unable or unwilling or have failed to perform his or her duties hereunder for thirty (30) consecutive days, or if, during any year of the term hereof, he or she shall have been unable or unwilling or have failed to perform his or her duties for a total period of thirty (30) days, whether consecutive or not. For the purposes hereof, the term "any year of the term hereof" is defined to mean any period of 12 calendar months commencing on the first day of January and terminating on the last day of December of the following year during the term hereof.

DISCONTINUANCE OF BUSINESS AS TERMINATION OF EMPLOYMENT

Anything herein contained to the contrary notwithstanding, in the event that employer shall discontinue operations at the premises mentioned above, then this agreement shall cease and terminate as of the last day of the month in which operations cease with the same force and effect as if such last day of the month were originally set forth as the termination date hereof..

EMPLOYEE'S COMMITMENTS BINDING ON EMPLOYER ONLY ON WRITTEN CONSENT

Employee shall not have the right to make any contracts or other commitments for or on behalf of employer within the written consent of the employer.

CONTRACT TERMS TO BE EXCLUSIVE

This written agreement contains the sole and entire agreement between the parties, and supersedes any and all other agreements between them. The parties acknowledge and agree that neither of them has made any representation with respect to the subject matter of this agreement or any representations inducing the execution and delivery hereof except such representations as are specifically set forth herein, and each party acknowledges that he, she or it has relied on his, her or its own judgment in entering into the agreement. The parties further acknowledge that any statements or representations that may have heretofore been made by either of them to the other are void and of no effect and that neither of them has relied thereon on connection with his, her or its dealings with the other.

WAIVER OR MODIFICATION INEFFECTIVE UNLESS IN WRITING

No waiver or modification of this agreement or of its covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith. Furthermore, no evidence of any waiver or modification shall be offered or received in evidence in any proceeding, arbitration, or litigation between the parties arising out of or affecting this agreement, or the rights or obligations of any party hereunder, unless such waiver or modification is in writing, duly executed as aforesaid. The provisions of this paragraph may not be waived except as herein set forth.

CONTRACT GOVERNED BY LAW

This agreement and performance hereunder and all suits and special proceedings hereunder shall be construed in accordance with the laws of the State of Montana.

GUARANTOR OF COMPANY DEBT

Employee, as personal guarantor of company debt, can, at any time, demand full and immediate payment of such loans in event of termination. At any time during his employ, employee may borrow at 2% below prime rate from the employer any amount equal to the total dollar amount currently guaranteed by employee.

BINDING EFFECT OF AGREEMENT

This agreement shall be binding on and inure to the benefit of the respective parties and their respective heirs, legal representatives, successors, and assigns.

Executed on the date first above written.

/s/ Guy Cook	/s/ Guy Cook
"Employee"	"Employer"

EXHIBIT 10.7

EMPLOYMENT AGREEMENT

This agreement made and entered into this 24 day of November 2004 by and between Bacterin, Inc., of Bozeman, MT, hereinafter referred to as "employer", and Mitch Godfrey of Bozeman, hereinafter refereed to as "employee".
The parties recite that:

A. Employer is engaged in the coating of medical devices and maintains business premises at 600 Cruiser Lane, Belgrade, MT 59714.
B. Employee is willing to be employed by employer, and employer is willing to employ employee, on the terms and conditions hereinafter set forth.

For the reasons set forth above, and in consideration of the mutual covenants and promises of the parties hereto, employer and employee covenant and agree as follows:

AGREEMENT TO EMPLOY AND BE EMPLOYED

Employer hereby employs employee as CFO at the above-mentioned premises, and the employee hereby accepts and agrees to such employment.

DESCRIPTION OF EMPLOYEE'S DUTIES

Subject to the supervision and pursuant to the orders, advice, and direction of employer, employee shall perform such duties as are customarily performed by one holding such position in other businesses or enterprises of the same or similar nature as that engaged in by the employer. Employee shall additionally render such other and unrelated services and duties as may be assigned to him or her from time to time by employer.

MANNER OF PERFORMANCE OF EMPLOYEE'S DUTIES

Employee shall at all times faithfully, industriously, and to the best of his ability, experience, and talent, perform all duties that may be require of and from him or her pursuant to the express and implicit terms hereof, to the reasonable satisfaction of employer. Such duties shall be rendered at the above mentioned premises and at such other place or places as employer shall in good faith require or as the interests, needs, business, and opportunities of employer shall require or make advisable.

DURATION OF EMPLOYMENT

The term of employment shall commence on October 1, 2003. Voluntary termination is determined by the employee, but is subject, however, to termination procedures as provided in Section 8 and 9 hereof and in the Employee Handbook.

COMPENSATION; REIMBURSEMENT

Employer shall pay employee and employee agrees to accept from employer, in full payment for employee's services hereunder, compensation at the rate of Dollars ($60,000) per year**,** payable bi-weekly. In addition to the foregoing, employer will reimburse for any and all necessary, customary, and usual expenses incurred by him or her while traveling for and on behalf of the employer pursuant to employer's directions.

INTELLECTUAL PROPERTY

The Company will be entitled to and will own all the results and proceeds of the Employee's services under this Agreement, including, without limitation, all rights throughout the world to any copyright, patent, trademark or other right and to all ideas, inventions, products, programs, procedures, formats and other materials of any kind created or developed or worked on by the Employee during her employment by the Company; the same shall be the sole and exclusive property of the Company; and the Employee will not have any right, title or interest of any nature or kind therein. Without limiting the foregoing, it will be presumed that any copyright, patent, trademark or other right and any idea, invention, product, program, procedure, format or material created, developed or worked on by the Employee at any time during the term of her employment will be a result or proceed of the Employee's services under this Agreement. The Employee will take such action and execute such documents as the Company may request to warrant and confirm the Company's title to and ownership of all such results and proceeds and to transfer and assign to the Company any rights which the Employee may have therein.

EMPLOYEE'S LOYALTY TO EMPLOYER'S INTERESTS

Employee shall devote all of his or her time, attention, knowledge, and skill solely and exclusively to the business and interests of employer, and employer shall be entitled to all benefits, emoluments, profits, or other issues arising from or incident to any and all work, services, and advice of employee. Employee expressly agrees that during the term hereof he or she will not be interested, directly or indirectly, in any form, fashion, or manner, as partner, officer, director, stockholder, advisor, employee, or in any form or capacity, in any other business similar to employer's business or any allied trade, except that nothing herein contained shall be deemed to prevent or limit the right of employee to invest any of his or her surplus funds in the capital stock or other securities of any corporation whose stock or securities are publicly owned or are regularly traded on any public exchange, nor shall anything herein contained by deemed to prevent employee from investing or limit employee's right to invest his or her surplus funds in real estate.

NONDISCLOSURE OF INFORMATION CONCERNING BUSINESS

Employee will not at any time, in any fashion, form, or manner, either directly or indirectly divulge, disclose, or communicate to any person, firm, or corporation in any manner whatsoever any information of any kind, nature, or description concerning any matters affecting or relating to the business of employer, including, without limitation, the names of any of it's customers, the prices it obtains or has obtained, or at which it sells or has sold its products, or any other information concerning the business of employer, its manner of operation, or its plans, processes, or other date of any kind, nature, or description without regard to whether any or all of the foregoing matters would be deemed confidential, material, or important. The parties hereby stipulate that, as between them, the foregoing matters are important, material, and confidential, and gravely affect the effective and successful conduct of the business of employer, and its good will, and that any breach of the terms of this section is a material breach of this agreement.

OPTION TO TERMINATE ON PERMANENT DISABILITY OF EMPLOYEE

Notwithstanding anything in this agreement to the contrary, employer is hereby given the option to terminate this agreement in the event that during the term hereof employee shall become permanently disabled, as the term "permanently disabled" is hereinafter fixed and defined. Such option shall be exercised by employer giving notice to employee by registered mail, addressed to him or her in care of employer at the above stated address, or at such other address as employee shall designate in writing, of its intention to terminate this agreement on the last day of the month during which such notice is mailed.

On the giving of such notice this agreement and the term hereof shall cease and come to an end on the last day of the month in which the notice is mailed, with the same force and effect as if such last day of the month were the date originally set forth as the termination date. For purposes of this agreement, employee shall be deemed to have become permanently disabled if, during any year of the term hereof, because of ill health, physical or mental disability, or for other causes beyond his or her control, he or she shall have been continuously unable or unwilling or have failed to perform his or her duties hereunder for thirty (30) consecutive days, or if, during any year of the term hereof, he or she shall have been unable or unwilling or have failed to perform his or her duties for a total period of thirty (30) days, whether consecutive or not. For the purpose hereof, the term "any year of the term hereof' is defined to mean any period of 12 calendar months commencing on the first day of January and terminating on the last day of December of the following year during the term hereof.

DISCONTINUANCE OF BUSINESS AS TERMINATION OF EMPLOYMENT

Anything herein contained to the contrary notwithstanding, in the event that employer shall discontinue operations at the premises mentioned above, then this agreement shall cease and terminate as of the last day of the month in which operations cease with the same force and effect as if such last day of the month were originally set forth as the termination date hereof.

EMPLOYEE'S COMMITMENTS BINDING ON EMPLOYER ONLY ON WRITTEN CONSENT

Employee shall not have the right to make any contracts or other commitments for or on behalf of employer within the written consent of the employer.

CONTRACT TERMS TO BE EXCLUSIVE

This written agreement contains the sole and entire agreement between the parties, and supersedes any and all other agreements between them. The parties acknowledge and agree that neither of them has made any representation with respect to the subject matter of this agreement or any representations inducing the execution and delivery hereof except such representations as are specifically set forth herein, and each party acknowledges that he, she or it has relied on his, her or its own judgment in entering into the agreement. The parties further acknowledge that any statements or representations that may have heretofore been made by either of them to the other are void and of no effect and that neither of them has relied thereon on connection with his, her or its dealings with the other.

WAIVER OR MODIFICATION INEFFECTIVE UNLESS IN WRITING

No waiver or modification of this agreement or of its covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith. Furthermore, no evidence of any waiver or modification shall be offered or received in evidence in any proceeding, arbitration, or litigation between the parties arising out of or affecting this agreement, or the rights or obligations of any party hereunder, unless such waiver or modification is in writing, duly executed as aforesaid. The provisions of this paragraph may not be waived except as herein set forth.

CONTRACT GOVERNED BY LAW

This agreement and performance hereunder and all suits and special proceedings hereunder shall be construed in accordance with the laws of the State of Montana.

BINDING EFFECT OF AGREEMENT

This agreement shall be binding on and inure to the benefit of the respective parties and their respective heirs, legal representatives, successors, and assigns.

/s/ Mitchell Godfrey	/s/ Guy Cook
"Employee"	"Employer"

Employee benefit package shall include the following items:

Stock: 100,000 shares at .05 cents

Bonus: $5,000/quarter as per handbook

Other:

EXHIBIT 10.8

EMPLOYMENT AGREEMENT

This agreement made and entered into this 3rd day of June, 2010 by and between Bacterin, Inc., of Belgrade, MT, hereinafter referred to as “employer”, and John P. Gandolfo, of Wayne, New Jersey, hereinafter refereed to as “employee”.
The parties recite that:

A. Employer is engaged in the coating of medical devices and processing biologics and maintains business premises at 600 and 664 Cruiser Lane, Belgrade, MT 59714.
B. Employee is willing to be employed by employer, and employer is willing to employ employee, on the terms and conditions hereinafter set forth.

For the reasons set forth above, and in consideration of the mutual covenants and promises of the parties hereto, employer and employee covenant and agree as follows:

AGREEMENT TO EMPLOY AND BE EMPLOYED

Employer hereby employs employee as the Chief Financial Officer at the above-mentioned premises, and the employee hereby accepts and agrees to such employment.

DESCRIPTION OF EMPLOYEE’S DUTIES

Subject to the supervision and pursuant to the orders, advice, and direction of employer, employee shall perform such duties as are customarily performed by one holding such position in other businesses or enterprises of the same or similar nature as that engaged in by the employer. Employee shall additionally render such other and unrelated services and duties as may be assigned to him or her from time to time by employer.

MANNER OF PERFORMANCE OF EMPLOYEE’S DUTIES

Employee shall at all times faithfully, industriously, and to the best of his or her ability, experience, and talent, perform all duties that may be require of and from him or her pursuant to the express and implicit terms hereof, to the reasonable satisfaction of employer. Such duties shall be rendered in the New York Metropolitan area and at such other place or places as employer shall in good faith require or as the interests, needs, business, and opportunities of employer shall require or make advisable.

DURATION OF EMPLOYMENT

Full time employment shall commence on July 6, 2010; provided, however, that employee shall be available to Company on a part-time basis beginning June 4, 2010 and July 5, 2010 and shall be compensated for his time on an hourly basis, at an hourly rate of $140 per hour. Voluntary termination is determined by the employer and/or employee, but is subject, however, to termination procedures as provided in Section 8 and 9 hereof and in the Employee Handbook.

COMPENSATION; REIMBURSEMENT

Employer shall pay employee and employee agrees to accept from employer, in full payment for employee’s services hereunder, base compensation of Two Hundred Ninety Thousand Dollars ($290,000) per year, payable bi-weekly. Employee may also receive a bonus in the amount of 30% of his annual base compensation, if the following criteria are met: half the bonus amount ($43,500) shall be payable if Employer’s annual revenue goal is met or exceeded and half the bonus amount ($43,500) shall be payable if Employer’s annual earnings goal is met or exceeded.

Employee shall also receive a grant of stock options subject to the Bacterin International, Inc. 2004 Stock Incentive Plan as outlined in that certain Stock Option Agreement dated June 3, 2010, attached hereto as Exhibit A and incorporated herein by this reference.

If employee's employment is terminated by the Company without "Cause," Employee shall be entitled to receive his Base Salary for a period of six months, if the Employee has delivered to the Company a complete release of any claims against the Company and its directors, officers, Subsidiaries and Affiliates (other than the severance payments described in this Section) in form and substance reasonably satisfactory to the Company and if Employee has not breached any section of this employment agreement. The severance payments payable to the Employee pursuant to this paragraph will be paid biweekly through automatic deposits; provided that the initial payment of any severance hereunder shall begin on the eighth day after the Employee has signed the aforementioned release. For purposes of this Agreement, "Cause" shall mean (i) the commission of a felony or other crime involving moral turpitude or the commission of any other act or omission involving theft, dishonesty, disloyalty or fraud with respect to the Company or any of their customers or suppliers, (ii) reporting to work under the influence of alcohol or illegal drugs, the use of illegal drugs (whether or not at the workplace) or other conduct causing the Company or any of its Subsidiaries substantial public disgrace or disrepute or economic harm, (iii) substantial and repeated failure to perform duties as reasonably directed by the Company which is not cured to the Company's reasonable satisfaction within 30 days after written notice thereof to Employee, to the extent that such breach is capable of being cured, (iv) breach of fiduciary duty, gross negligence or willful misconduct with respect to the Company or (v) any other material breach of this Agreement which is not cured to the Company's reasonable satisfaction within 15 days after written notice thereof to Employee, to the extent that such breach is capable of being cured.

If Employee's employment with the company is terminated by the Company in connection with a "Change of "Control" Employee shall be eligible to receive 12 months' salary as severance, if the Employee has delivered to the Company a complete release of any claims against the Company and its directors, officers, Subsidiaries and Affiliates (other than the severance payments described in this Section) in form and substance reasonably satisfactory to the Company and if Employee has not breached any section of this employment agreement. The severance payments payable to the Employee pursuant to this paragraph will be paid biweekly through automatic deposits; provided that the initial payment of any severance hereunder shall begin on the eighth day after the Employee has signed the aforementioned release. A "Change of Control" shall consist of either Guy Cook no longer serving as the Chief Executive Officer or a sale of all or substantially all of the assets of the Company.

INTELLECTUAL PROPERTY

The Company will be entitled to and will own all the results and proceeds of the Employee's services under this Agreement, including, without limitation, all rights throughout the world to any copyright, patent, trademark or other right and to all ideas, inventions, products, programs, procedures, formats and other materials of any kind created or developed or worked on by the Employee during his/her employment by the Company, and one year after termination, that pertains to Company business; the same shall be the sole and exclusive property of the Company; and the Employee will not have any right, title or interest of any nature or kind therein. Without limiting the foregoing, it will be presumed that any copyright, patent, trademark or other right and any idea, invention, product, program, procedure, format or material created, developed or worked on by the Employee at any time during the term of her employment will be a result or proceed of the Employee's services under this Agreement. The Employee will take such action and execute such documents as the Company may request to warrant and confirm the Company's title to and ownership of all such results and proceeds and to transfer and assign to the Company any rights which the Employee may have therein.

EMPLOYEE'S LOYALTY TO EMPLOYER'S INTERESTS

Employee shall devote all of his or her time, attention, knowledge, and skill solely and exclusively to the business and interests of employer, and employer shall be entitled to all benefits, emoluments, profits, or other issues arising from or incident to any and all work, services, and advice of employee. Employee expressly agrees that during the term hereof he or she will not be interested, directly or indirectly, in any form, fashion, or manner, as partner, officer, director, stockholder, advisor, employee, or in any form or capacity, in any other business similar to employer's business or any allied trade, except that nothing herein contained shall be deemed to prevent or limit the right of employee to invest any of his or her surplus funds in the capital stock or other securities of any corporation whose stock or securities are publicly owned or are regularly traded on any public exchange, nor shall anything herein contained by deemed to prevent employee from investing or limit employee's right to invest his or her surplus funds in real estate.

NONDISCLOSURE OF INFORMATION CONCERNING BUSINESS

Employee will not at any time, in any fashion, form, or manner, either directly or indirectly divulge, disclose, or communicate to any person, firm, or corporation in any manner whatsoever any information of any kind, nature, or description concerning any matters affecting or relating to the business of employer, including, without limitation, the names of any of it's customers, the prices it obtains or has obtained, or at which it sells or has sold its products, or any other information concerning the business of employer, its manner of operation, or its plans, processes, or other date of any kind, nature, or description without regard to whether any or all of the foregoing matters would be deemed confidential, material, or important. The parties hereby stipulate that, as between them, the foregoing matters are important, material, and confidential, and gravely affect the effective and successful conduct of the business of employer, and its good will, and that any breach of the terms of this section is a material breach of this agreement.

OPTION TO TERMINATE ON PERMANENT DISABILITY OF EMPLOYEE

Notwithstanding anything in this agreement to the contrary, employer is hereby given the option to terminate this agreement in the event that during the term hereof employee shall become permanently disabled, as the term "permanently disabled" is hereinafter fixed and defined. Such option shall be exercised by employer giving notice to employee by registered mail, addressed to him or her in care of employer at the above stated address, or at such other address as employee shall designate in writing, of its intention to terminate this agreement on the last day of the month during which such notice is mailed.

On the giving of such notice this agreement and the term hereof shall cease and come to an end on the last day of the month in which the notice is mailed, with the same force and effect as if such last day of the month were the date originally set forth as the termination date. For purposes of this agreement, employee shall be deemed to have become permanently disabled if, during any year of the term hereof, because of ill health, physical or mental disability, or for other causes beyond his or her control, he or she shall have been continuously unable or unwilling or have failed to perform his or her duties hereunder for thirty (30) consecutive days, or if, during any year of the term hereof, he or she shall have been unable or unwilling or have failed to perform his or her duties for a total period of thirty (30) days, whether consecutive or not. For the purposes hereof, the term "any year of the term hereof" is defined to mean any period of 12 calendar months commencing on the first day of January and terminating on the last day of December of the following year during the term hereof.

DISCONTINUANCE OF BUSINESS AS TERMINATION OF EMPLOYMENT

Anything herein contained to the contrary notwithstanding, in the event that employer shall discontinue operations at the premises mentioned above, then this agreement shall cease and terminate as of the last day of the month in which operations cease with the same force and effect as if such last day of the month were originally set forth as the termination date hereof..

EMPLOYEE'S COMMITMENTS BINDING ON EMPLOYER ONLY ON WRITTEN CONSENT

Employee shall not have the right to make any contracts or other commitments for or on behalf of employer without the written consent of the employer.

CONTRACT TERMS TO BE EXCLUSIVE

This written agreement contains the sole and entire agreement between the parties, and supersedes any and all other agreements between them. The parties acknowledge and agree that neither of them has made any representation with respect to the subject matter of this agreement or any representations inducing the execution and delivery hereof except such representations as are specifically set forth herein, and each party acknowledges that he, she or it has relied on his, her or its own judgment in entering into the agreement. The parties further acknowledge that any statements or representations that may have heretofore been made by either of them to the other are void and of no effect and that neither of them has relied thereon on connection with his, her or its dealings with the other.

WAIVER OR MODIFICATION INEFFECTIVE UNLESS IN WRITING

No waiver or modification of this agreement or of its covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith. Furthermore, no evidence of any waiver or modification shall be offered or received in evidence in any proceeding, arbitration, or litigation between the parties arising out of or affecting this agreement, or the rights or obligations of any party hereunder, unless such waiver or modification is in writing, duly executed as aforesaid. The provisions of this paragraph may not be waived except as herein set forth.

CONTRACT GOVERNED BY LAW

This agreement and performance hereunder and all suits and special proceedings hereunder shall be construed in accordance with the laws of the State of Montana.

BINDING EFFECT OF AGREEMENT

This agreement shall be binding on and inure to the benefit of the respective parties and their respective heirs, legal representatives, successors, and assigns.

Executed on the date first above written.

/s/ John Gandolfo	/s/ Guy Cook
"Employee"	"Employer"

Additional Benefits as outlined in the employee manual:

Exhibit A
Stock Option Grant Agreement

EXHIBIT 10.9

EMPLOYMENT AGREEMENT

This agreement made and entered into this __1st__ day of April, 2008 by and between Bacterin, Inc., of Bozeman, MT, hereinafter referred to as "employer", and *Jesus Hernandez*, of *Bozeman, MT* , hereinafter refereed to as "employee".
The parties recite that:

A. Employer is engaged in the coating of medical devices and processing biologics and maintains business premises at 600 and 664 Cruiser Lane, Belgrade, MT 59714.
B. Employee is willing to be employed by employer, and employer is willing to employ employee, on the terms and conditions hereinafter set forth.

For the reasons set forth above, and in consideration of the mutual covenants and promises of the parties hereto, employer and employee covenant and agree as follows:

AGREEMENT TO EMPLOY AND BE EMPLOYED

Employer hereby employs employee as *Vice President of Biologics* at the above-mentioned premises, and the employee hereby accepts and agrees to such employment.

DESCRIPTION OF EMPLOYEE'S DUTIES

Subject to the supervision and pursuant to the orders, advice, and direction of employer, employee shall perform such duties as are customarily performed by one holding such position in other businesses or enterprises of the same or similar nature as that engaged in by the employer. Employee shall additionally render such other and unrelated services and duties as may be assigned to him or her from time to time by employer.

MANNER OF PERFORMANCE OF EMPLOYEE'S DUTIES

Employee shall at all times faithfully, industriously, and to the best of his ability, experience, and talent, perform all duties that may be require of and from him or her pursuant to the express and implicit terms hereof, to the reasonable satisfaction of employer. Such duties shall be rendered at the above mentioned premises and at such other place or places as employer shall in good faith require or as the interests, needs, business, and opportunities of employer shall require or make advisable.

DURATION OF EMPLOYMENT

The term of employment shall commence on April 1st, 2008. Voluntary termination is determined by the employee, but is subject, however, to termination procedures as provided in Section 8 and 9 hereof and in the Employee Handbook.

COMPENSATION; REIMBURSEMENT

Employer shall pay employee and employee agrees to accept from employer, in full payment for employee's services hereunder, compensation at the rate of *One-Hundred Ninety Thousand Dollars ($ 190,000.00)* per year, payable bi-weekly.

STOCK OPTIONS

Employer will transfer One Million (1,100,000) shares of Bacterin International, Inc. common stock, based on approximately 55 million shares outstanding. These shares will be distributed as follows: Seven Hundred Thousand (700,000) shares will vest upon signing of this agreement. The remainder Four Hundred Thousand (400,000) shares will vest at Two Hundred Thousand (200,000) shares per year upon the Employee's anniversary date of employment with a strike price of sixty seven cents (.67) per share.

Notwithstanding the above, all 1,100,000 options shall be deemed fully earned and vested immediately on an accelerated basis upon either of the following events: An IPO resulting in either net cash proceeds of at least $10 million USD or gross cash proceeds of $ 8 million USD, or a change in ownership or control of at least 25% of the company stock currently held (i.e., excludes option and warrant grants) by Guy Cook.

In the event there is a change in ownership or control of at least 25% of the company stock currently held (i.e., excludes option and warrant grants) by Guy Cook, then employee will receive a one time bonus of $ 737,000 which can only be used to elect a cashless exercise of the options through a registered broker dealer.

INTELLECTUAL PROPERTY

The Company will be entitled to and will own all the results and proceeds of the Employee's services under this Agreement, including, without limitation, all rights throughout the world to any copyright, patent, trademark or other right and to all ideas, inventions, products, programs, procedures, formats and other materials of any kind created or developed or worked on by the Employee during his/her employment by the Company, and one year after termination, that pertains to Company business; the same shall be the sole and exclusive property of the Company; and the Employee will not have any right, title or interest of any nature or kind therein. Without limiting the foregoing, it will be presumed that any copyright, patent, trademark or other right and any idea, invention, product, program, procedure, format or material created, developed or worked on by the Employee at any time during the term of her employment will be a result or proceed of the Employee's services under this Agreement. The Employee will take such action and execute such documents as the Company may request to warrant and confirm the Company's title to and ownership of all such results and proceeds and to transfer and assign to the Company any rights which the Employee may have therein.

EMPLOYEE’S LOYALTY TO EMPLOYER’S INTERESTS

Employee shall devote all of his or her time, attention, knowledge, and skill solely and exclusively to the business and interests of employer, and employer shall be entitled to all benefits, emoluments, profits, or other issues arising from or incident to any and all work, services, and advice of employee. Employee expressly agrees that during the term hereof he or she will not be interested, directly or indirectly, in any form, fashion, or manner, as partner, officer, director, stockholder, advisor, employee, or in any form or capacity, in any other business similar to employer’s business or any allied trade, except that nothing herein contained shall be deemed to prevent or limit the right of employee to invest any of his or her surplus funds in the capital stock or other securities of any corporation whose stock or securities are publicly owned or are regularly traded on any public exchange, nor shall anything herein contained by deemed to prevent employee from investing or limit employee’s right to invest his or her surplus funds in real estate.

NONDISCLOSURE OF INFORMATION CONCERNING BUSINESS

Employee will not at any time, in any fashion, form, or manner, either directly or indirectly divulge, disclose, or communicate to any person, firm, or corporation in any manner whatsoever any information of any kind, nature, or description concerning any matters affecting or relating to the business of employer, including, without limitation, the names of any of it’s customers, the prices it obtains or has obtained, or at which it sells or has sold its products, or any other information concerning the business of employer, its manner of operation, or its plans, processes, or other date of any kind, nature, or description without regard to whether any or all of the foregoing matters would be deemed confidential, material, or important. The parties hereby stipulate that, as between them, the foregoing matters are important, material, and confidential, and gravely affect the effective and successful conduct of the business of employer, and its good will, and that any breach of the terms of this section is a material breach of this agreement.

OPTION TO TERMINATE ON PERMANENT DISABILITY OF EMPLOYEE

Notwithstanding anything in this agreement to the contrary, employer is hereby given the option to terminate this agreement in the event that during the term hereof employee shall become permanently disabled, as the term “permanently disabled” is hereinafter fixed and defined. Such option shall be exercised by employer giving notice to employee by registered mail, addressed to him in care of employer at the above stated address, or at such other address as employee shall designate in writing, of its intention to terminate this agreement on the last day of the month during which such notice is mailed.

On the giving of such notice this agreement and the term hereof shall cease and come to an end on the last day of the month in which the notice is mailed, with the same force and effect as if such last day of the month were the date originally set forth as the termination date. For purposes of this agreement, employee shall be deemed to have become permanently disabled if, during any year of the term hereof, because of ill health, physical or mental disability, or for other causes beyond his or her control, he or she shall have been continuously unable or unwilling or have failed to perform his or her duties hereunder for thirty (30) consecutive days, or if, during any year of the term hereof, he or she shall have been unable or unwilling or have failed to perform his or her duties for a total period of thirty (30) days, whether consecutive or not. For the purposes hereof, the term “any year of the term hereof” is defined to mean any period of 12 calendar months commencing on the first day of January and terminating on the last day of December of the following year during the term hereof.

DISCONTINUANCE OF BUSINESS AS TERMINATION OF EMPLOYMENT

Anything herein contained to the contrary notwithstanding, in the event that employer shall discontinue operations at the premises mentioned above, then this agreement shall cease and terminate as of the last day of the month in which operations cease with the same force and effect as if such last day of the month were originally set forth as the termination date hereof..

EMPLOYEE’S COMMITMENTS BINDING ON EMPLOYER ONLY ON WRITTEN CONSENT

Employee shall not have the right to make any contracts or other commitments for or on behalf of employer without the written consent of the employer.

CONTRACT TERMS TO BE EXCLUSIVE

This written agreement contains the sole and entire agreement between the parties, and supersedes any and all other agreements between them. The parties acknowledge and agree that neither of them has made any representation with respect to the subject matter of this agreement or any representations inducing the execution and delivery hereof except such representations as are specifically set forth herein, and each party acknowledges that he, she or it has relied on his, her or its own judgment in entering into the agreement. The parties further acknowledge that any statements or representations that may have heretofore been made by either of them to the other are void and of no effect and that neither of them has relied thereon on connection with his, her or its dealings with the other.

WAIVER OR MODIFICATION INEFFECTIVE UNLESS IN WRITING

No waiver or modification of this agreement or of its covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith. Furthermore, no evidence of any waiver or modification shall be offered or received in evidence in any proceeding, arbitration, or litigation between the parties arising out of or affecting this agreement, or the rights or obligations of any party hereunder, unless such waiver or modification is in writing, duly executed as aforesaid. The provisions of this paragraph may not be waived except as herein set forth.

CONTRACT GOVERNED BY LAW

This agreement and performance hereunder and all suits and special proceedings hereunder shall be construed in accordance with the laws of the State of Montana.

BINDING EFFECT OF AGREEMENT

This agreement shall be binding on and inure to the benefit of the respective parties and their respective heirs, legal representatives, successors, and assigns.

Executed on the date first above written.

/s/ Jesus Hernandez	/s/ Guy Cook
"Employee"	"Employer"
Title	Title

EXHIBIT 10.10

EMPLOYMENT AGREEMENT

This agreement made and entered into this 29th day of December, 2008 by and between Bacterin, Inc., of Belgrade, MT, hereinafter referred to as “employer”, and Darrel Holmes, of Bozeman, MT, hereinafter refereed to as “employee”.
The parties recite that:

A. Employer is engaged in the coating of medical devices and processing biologics and maintains business premises at 600 and 664 Cruiser Lane, Belgrade, MT 59714.

B. Employee is willing to be employed by employer, and employer is willing to employ employee, on the terms and conditions hereinafter set forth.

For the reasons set forth above, and in consideration of the mutual covenants and promises of the parties hereto, employer and employee covenant and agree as follows:

AGREEMENT TO EMPLOY AND BE EMPLOYED

Employer hereby employs employee as Vice President of Devices at the above-mentioned premises, and the employee hereby accepts and agrees to such employment.

DESCRIPTION OF EMPLOYEE’S DUTIES

Subject to the supervision and pursuant to the orders, advice, and direction of employer, employee shall perform such duties as are customarily performed by one holding such position in other businesses or enterprises of the same or similar nature as that engaged in by the employer. Employee shall additionally render such other and unrelated services and duties as may be assigned to her from time to time by employer.

MANNER OF PERFORMANCE OF EMPLOYEE’S DUTIES

Employee shall at all times faithfully, industriously, and to the best of her ability, experience, and talent, perform all duties that may be require of and from her pursuant to the express and implicit terms hereof, to the reasonable satisfaction of employer. Such duties shall be rendered at the above mentioned premises and at such other place or places as employer shall in good faith require or as the interests, needs, business, and opportunities of employer shall require or make advisable.

DURATION OF EMPLOYMENT

The term of employment shall commence on December 29, 2008. Voluntary termination is determined by the employer and/or employee, but is subject, however, to termination procedures as provided in Section 8 and 9 hereof and in the Employee Handbook.

COMPENSATION; REIMBURSEMENT

Employer shall pay employee and employee agrees to accept from employer, in full payment for employee’s services hereunder, compensation at the rate of One Hundred Thousand Dollars ($1000,000) per year, payable bi-weekly. In addition to the foregoing, employer will reimburse for any and all necessary, customary, and usual expenses incurred by her while traveling for and on behalf of the employer pursuant to employer’s directions.

INTELLECTUAL PROPERTY

The Company will be entitled to and will own all the results and proceeds of the Employee's services under this Agreement, including, without limitation, all rights throughout the world to any copyright, patent, trademark or other right and to all ideas, inventions, products, programs, procedures, formats and other materials of any kind created or developed or worked on by the Employee during her employment by the Company, and one year after termination, that pertains to Company business; the same shall be the sole and exclusive property of the Company; and the Employee will not have any right, title or interest of any nature or kind therein. Without limiting the foregoing, it will be presumed that any copyright, patent, trademark or other right and any idea, invention, product, program, procedure, format or material created, developed or worked on by the Employee at any time during the term of her employment will be a result or proceed of the Employee's services under this Agreement. The Employee will take such action and execute such documents as the Company may request to warrant and confirm the Company's title to and ownership of all such results and proceeds and to transfer and assign to the Company any rights which the Employee may have therein.

EMPLOYEE'S LOYALTY TO EMPLOYER'S INTERESTS

Employee shall devote all of her time, attention, knowledge, and skill solely and exclusively to the business and interests of employer, and employer shall be entitled to all benefits, emoluments, profits, or other issues arising from or incident to any and all work, services, and advice of employee. Employee expressly agrees that during the term hereof he or she will not be interested, directly or indirectly, in any form, fashion, or manner, as partner, officer, director, stockholder, advisor, employee, or in any form or capacity, in any other business similar to employer's business or any allied trade, except that nothing herein contained shall be deemed to prevent or limit the right of employee to invest any of her surplus funds in the capital stock or other securities of any corporation whose stock or securities are publicly owned or are regularly traded on any public exchange, nor shall anything herein contained by deemed to prevent employee from investing or limit employee's right to invest her surplus funds in real estate.

NONDISCLOSURE OF INFORMATION CONCERNING BUSINESS

Employee will not at any time, in any fashion, form, or manner, either directly or indirectly divulge, disclose, or communicate to any person, firm, or corporation in any manner whatsoever any information of any kind, nature, or description concerning any matters affecting or relating to the business of employer, including, without limitation, the names of any of it's customers, the prices it obtains or has obtained, or at which it sells or has sold its products, or any other information concerning the business of employer, its manner of operation, or its plans, processes, or other date of any kind, nature, or description without regard to whether any or all of the foregoing matters would be deemed confidential, material, or important. The parties hereby stipulate that, as between them, the foregoing matters are important, material, and confidential, and gravely affect the effective and successful conduct of the business of employer, and its good will, and that any breach of the terms of this section is a material breach of this agreement.

OPTION TO TERMINATE ON PERMANENT DISABILITY OF EMPLOYEE

Notwithstanding anything in this agreement to the contrary, employer is hereby given the option to terminate this agreement in the event that during the term hereof employee shall become permanently disabled, as the term "permanently disabled" is hereinafter fixed and defined. Such option shall be exercised by employer giving notice to employee by registered mail, addressed to her in care of employer at the above stated address, or at such other address as employee shall designate in writing, of its intention to terminate this agreement on the last day of the month during which such notice is mailed.

On the giving of such notice this agreement and the term hereof shall cease and come to an end on the last day of the month in which the notice is mailed, with the same force and effect as if such last day of the month were the date originally set forth as the termination date. For purposes of this agreement, employee shall be deemed to have become permanently disabled if, during any year of the term hereof, because of ill health, physical or mental disability, or for other causes beyond her control, he or she shall have been continuously unable or unwilling or have failed to perform her duties hereunder for thirty (30) consecutive days, or if, during any year of the term hereof, he or she shall have been unable or unwilling or have failed to perform her duties for a total period of thirty (30) days, whether consecutive or not. For the purposes hereof, the term "any year of the term hereof" is defined to mean any period of 12 calendar months commencing on the first day of January and terminating on the last day of December of the following year during the term hereof.

DISCONTINUANCE OF BUSINESS AS TERMINATION OF EMPLOYMENT

Anything herein contained to the contrary notwithstanding, in the event that employer shall discontinue operations at the premises mentioned above, then this agreement shall cease and terminate as of the last day of the month in which operations cease with the same force and effect as if such last day of the month were originally set forth as the termination date hereof..

EMPLOYEE'S COMMITMENTS BINDING ON EMPLOYER ONLY ON WRITTEN CONSENT

Employee shall not have the right to make any contracts or other commitments for or on behalf of employer without the written consent of the employer.

CONTRACT TERMS TO BE EXCLUSIVE

This written agreement contains the sole and entire agreement between the parties, and supersedes any and all other agreements between them. The parties acknowledge and agree that neither of them has made any representation with respect to the subject matter of this agreement or any representations inducing the execution and delivery hereof except such representations as are specifically set forth herein, and each party acknowledges that she or it has relied on her or its own judgment in entering into the agreement. The parties further acknowledge that any statements or representations that may have heretofore been made by either of them to the other are void and of no effect and that neither of them has relied thereon on connection with her or its dealings with the other.

WAIVER OR MODIFICATION INEFFECTIVE UNLESS IN WRITING

No waiver or modification of this agreement or of its covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith. Furthermore, no evidence of any waiver or modification shall be offered or received in evidence in any proceeding, arbitration, or litigation between the parties arising out of or affecting this agreement, or the rights or obligations of any party hereunder, unless such waiver or modification is in writing, duly executed as aforesaid. The provisions of this paragraph may not be waived except as herein set forth.

CONTRACT GOVERNED BY LAW

This agreement and performance hereunder and all suits and special proceedings hereunder shall be construed in accordance with the laws of the State of Montana.

BINDING EFFECT OF AGREEMENT

This agreement shall be binding on and inure to the benefit of the respective parties and their respective heirs, legal representatives, successors, and assigns.

Executed on the date first above written.

/s/ Darrel Holmes	/s/ Guy Cook
"Employee"	"Employer"

Additional Benefits include:

Stock Options as follows:

30,000 shares of stock options at a strike price of .05/share for the first 3 years of employment for a total of 90,000 shares. Oct. 9th, 2004 = 30,000 shares
Oct. 9th, 2005 = 30,000 shares
Oct. 9th, 2006 = 30,000 shares

30,000 shares of stock options at a strike price of .67/share for years 4 and 5 of employment for a total of 60,000 shares. Oct 9th, 2007 = 30,000 shares
Oct 9th, 2008 = 30,000 shares

30,000 shares of stock options at a strike price of .75/ share for years 6 through year 10 of employment for a total of 150,000 stock options
Dec 29th, 2009 = 36,575.34
Dec 29th 2010 = 23,424.66
Dec 29h 2011 = 30,000
Dec 29th 2012 = 30,000
Dec 29th 2013 = 30,000

For the complete 10 years of employment Darrel will vest a total of 300,000.00 shares.

Vacation, bonus and other benefits as outlined in the employee manual.

EXHIBIT 21.1

Subsidiaries of Bacterin, Inc.

Subsidiary	Stockholder	Percent Owned	State/Jurisdiction of Incorporation
Bacterin International, Inc.	Bacterin International Holdings, Inc.	100%	Nevada

Exhibit 99.1

BACTERIN INTERNATIONAL, INC.

DECEMBER 31, 2009 AND 2008

Child, Van Wagoner & Bradshaw, PLLC
Certified Public Accountants

Salt Lake Office:
5296 South Commerce Drive, Suite 300
Salt Lake City, Utah 84107-5370
Telephone: (801)281-4700

Kaysville Office:
1284 Flint Meadow Drive, Suite D
Kaysville, Utah 84037-9590
Telephone: (801)927-1337

Bacterin International, Inc.

Financial Statements

December 31, 2009 and 2008

Contents

Child,
Van Wagoner
& Bradshaw,
PLLC
CERTIFIED PUBLIC ACCOUNTANTS

SALT LAKE CITY
5296 South Commerce Dr.
Suite 300
Salt Lake City, Utah 84107
Phone: 801.281.4700
Fax: 801.281.4701

KAYSVILLE
1284 West Flint Meadow Dr.
Suite D
Kaysville, Utah 84037
Phone: 801.927.1337
Fax: 801.927.1344

HONG KONG
Suite A, 5/F
Max Share Centre
373 King's Road
North Point, Hong Kong
Phone: +(852) 21 555 333
Fax: +(852) 21 165 222

www.cpaone.net

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of
Bacterin International, Inc.
600 Cruiser Lane
Belgrade, MT 59714

We have audited the accompanying balance sheets of Bacterin International, Inc. (the Company) as of December 31, 2009 and 2008, and the related statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bacterin International, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

Child, Van Wagoner & Bradshaw, PLLC
Salt Lake City, Utah
June 18, 2010

BACTERIN INTERNATIONAL, INC.
Balance Sheets
As of December 31, 2009 and 2008

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 54,155	$ 238,895
Restricted cash and cash equivalents	-	1,000,000
Accounts receivable, net of allowance of $81,803 and $92,881, respectively	1,314,418	564,134
Notes receivable-trade	270,565	189,387
Notes receivable from stockholder	-	138,280
Inventories, net	5,000,713	4,158,690
Prepaid and other current assets	30,000	61,267
	6,669,851	6,350,653
Property & equipment, net	3,248,096	3,802,139
Intangible assets, net	554,268	548,772
Other assets	13,675	26,490
	$ 10,485,890	$ 10,728,054
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,403,950	$ 1,253,601
Accrued liabilities	463,633	253,538
Warrants derivative liability	75,231	-
Notes payable	1,126,690	1,000,000
Notes payable to stockholders	183,461	154,032
Current portion of capital lease obligations	85,071	190,989
Current portion of convertible notes payable ($890,000 net of debt discount of $69,213)	820,787	-
Current portion of long-term debt	1,202,574	1,286,571
	5,361,397	4,138,731
Capital lease obligation, less current portion	27,074	62,673
Convertible notes payable, less current portion	-	2,340,000
Long-term debt, less current portion	412,545	563,878
	5,801,016	7,105,282
Stockholders' Equity		
Preferred stock, $.0001 par value; 15,000,000 shares authorized; No shares issued and outstanding	-	-
Common stock, $.00001 par value; 85,000,000 shares authorized; 56,540,919 shares issued and 56,423,125 shares outstanding in 2009 and 50,718,134 shares issued and outstanding in 2008	565	507
Additional paid-in capital	22,238,210	16,973,858
Treasury stock, 117,794 shares	(76,566)	-
Retained deficit	(17,477,335)	(13,351,593)
	4,684,874	3,622,772
	$ 10,485,890	$ 10,728,054

See Accompanying Notes to Financial Statements.

BACTERIN INTERNATIONAL, INC.

Statements of Operations
For the Years Ended December 31, 2009 and 2008

	December 31,	
	2009	2008
REVENUE:		
Product sales	$ 7,101,357	$ 8,031,611
Royalties and other	292,136	180,848
TOTAL REVENUE	7,393,493	8,212,459
Cost of product sales	2,318,142	1,522,658
GROSS PROFIT	5,075,351	6,689,801
OPERATING EXPENSES:		
Selling, general, and administrative	4,161,941	3,417,904
Compensation expense	4,535,964	2,157,450
TOTAL OPERATING EXPENSES	8,697,905	5,575,354
INCOME (LOSS) FROM OPERATIONS	(3,622,554)	1,114,447
INTEREST AND OTHER INCOME (EXPENSE)		
Interest expense	(513,934)	(1,374,360)
Other	10,746	20,601
TOTAL INTEREST AND OTHER INCOME (EXPENSE), NET	(503,188)	(1,353,759)
NET INCOME (LOSS) BEFORE BENEFIT (PROVISION) FOR INCOME TAXES	(4,125,742)	(239,312)
BENEFIT (PROVISION) FOR INCOME TAXES	-	-
NET INCOME (LOSS)	$ (4,125,742)	$ (239,312)
Net income (loss) per share:		
Basic	$ (.08)	$ (.00)
Shares used in the computation:		
Basic	52,911,010	49,428,393

See Accompanying Notes to Financial Statements.

BACTERIN INTERNATIONAL, INC.
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2009 and 2008

	Common Stock Shares	Common Stock Amount	APIC Options/ Warrants	Additional paid-in capital	Retained Deficit	Treasury Stock	Total stockholders' equity
Balance at December 31, 2007	48,154,701	$ 481	$ 2,220,747	$ 12,074,104	$ (13,112,281)	$ -	$ 1,183,051
Issuance of common stock, options and warrants:							
Private placement	2,283,433	23	348,117	930,374	-	-	1,278,514
Warrants issued on convertible debt	-	-	368,787	-	-	-	368,787
Stock based compensation	300,000	3	235,974	224,997	-	-	460,974
Warrants for debt/equity issuance	-	-	279,198	-	-	-	279,198
Warrants for short-term note guarantee	-	-	291,560	-	-	-	291,560
Net income	-	-	-	-	(239,312)	-	(239,312)
Balance at December 31, 2008	50,738,134	507	3,744,383	13,229,475	(13,351,593)	-	3,622,772
Issuance of common stock, options and warrants:							
Private placement	2,437,500	24	13,601	1,936,375	-	-	1,950,000
Conversion of notes to common stock	3,020,285	30	-	2,414,847	-	-	2,414,877
Purchase of treasury stock	(117,794)	-	-	-	-	(76,566)	(76,566)
Warrants for debt issuance	-	-	62,183	-	-	-	62,183
Stock-based compensation	345,000	4	561,355	275,991	-	-	837,350
Net loss	-	-	-	-	(4,125,742)	-	(4,125,742)
Balance at December 31, 2009	56,423,125	$ 565	$ 4,381,522	$ 17,856,688	$ (17,477,335)	$ (76,566)	$ 4,684,874

See Accompanying Notes to Financial Statements.

BACTERIN INTERNATIONAL, INC.

Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	Year Ended December 31,	
	2009	2008
Operating activities:		
Net income (loss)	$ (4,125,742)	$ (239,312)
Noncash adjustments:		
Depreciation and amortization	707,926	685,715
Stock/option awards for services	837,350	460,974
Provision for losses on accounts receivable and inventory	(2,078)	94,171
Non-cash interest expense	183,078	939,545
(Gain) Loss on disposal of assets	(5,250)	1,051
Changes in operating assets and liabilities:		
Accounts receivable	(739,206)	346,984
Notes receivable-trade	(81,178)	(68,344)
Inventories	(851,023)	(2,259,125)
Prepaid and other current assets	44,082	(1,385)
Accounts payable	150,349	582,756
Accrued liabilities	210,096	(41,022)
Net cash provided by (used in) operating activities	(3,671,596)	502,008
Investing activities:		
Purchases of property and equipment	(42,089)	(649,507)
Note receivable from stockholder	138,280	(138,280)
Intangible asset additions	(51,576)	(167,905)
Proceeds on sale of fixed assets	5,250	2,400
Acquisition of entity under common control	-	1,158
Net cash used by investing activities	49,865	(952,134)
Financing activities:		
Restricted cash	-	(1,000,000)
Release of restriction on cash	1,000,000	-
(Payments on) long-term debt	(235,330)	(2,018,536)
Proceeds from issuance of convertible debt	550,000	2,340,000
(Payments on) notes payable	(500,000)	-
Proceeds from notes payable	926,690	1,000,000
(Payments on) capital leases	(207,232)	(216,092)
Proceeds from issuance of common stock	1,950,000	1,278,514
Payments on notes payable to shareholders	(47,137)	(838,717)
Net cash provided by financing activities	3,436,991	545,169
Increase (decrease) in cash	(184,740)	95,043
Cash and cash equivalents at beginning of period	238,895	143,852
Cash and cash equivalents at end of period	$ 54,155	$ 238,895

Supplemental disclosure of cash flow information (see note 19)

See Accompanying Notes to Financial Statements.

(1) Business Description and Summary of Significant Accounting Policies

Business Description

Bacterin International, Inc. (“the “Company” or “Bacterin”) develops, manufactures and markets biologics products to domestic and international markets and is a leader in the field of biomaterials research, device development and commercialization. Bacterin’s 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.

Bacterin’s device division develops anti-microbial coatings to inhibit infection based upon proprietary knowledge of the phenotypical changes made by microbes as they sense and adapt to changes in their environment. Bacterin develops, employs, and licenses bioactive coatings for various medical device applications. Bacterin’s strategic coating initiatives include the inhibition of biofilm formation, local (as opposed to systemic) drug delivery, local (as opposed to systemic) pain management, and anti-thrombotic factors for medical device applications.

Certain Risks and Concentrations

The Company's revenue is derived principally from the sale or license of its medical products, coatings and device implants. The markets in which the Company competes are highly competitive and rapidly changing. Significant technological advances, changes in customer requirements, or the emergence of competitive products with new capabilities or technologies could adversely affect the Company's operating results. The Company's business could be harmed by a decline in demand for, or in the prices of, its products or as a result of, among other factors, any change in pricing or distribution model, increased price competition, changes in government regulations or a failure by the Company to keep up with technological change. Further, a decline in available tissue donors could have an adverse impact on the business.

Financial instruments subjecting the Company to concentrations of credit risk are accounts and notes receivable. The Company maintains cash, cash equivalents, and short-term investments with various domestic financial institutions. From time to time, the Company's cash balances with its financial institutions may exceed insurance limits.

The Company's customers are worldwide with approximately 91% of sales in the United States in 2009 and 2008. One customer accounted for 12% of revenue in 2009. One customer accounted for 37% and another customer accounted for 10.2% of the Company's revenue in 2008. No single customer represented more than 10% of accounts receivable at December 31, 2009 and one customer represented 10.4% of accounts receivable at December 31, 2008.

Revenue by geographical region is as follows:

	Year Ended December 31,	
	2009	2008
United States	$ 6,708,027	$ 7,485,988
Rest of World	685,466	726,471
	$ 7,393,493	$ 8,212,459

Use of Estimates

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period; the carrying amount of property and equipment and intangible assets; valuation allowances for receivables and deferred income tax assets; and estimates of expected term and volatility in determining stock-based compensation expense. Actual results could differ from those estimates.

(1) Business Description and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates market value. As of December 31, 2008, a $1,000,000 certificate of deposit was pledged as collateral for the two $500,000 notes payable to Flathead Bank. The certificate of deposit was released as collateral during 2009.

Accounts Receivable and Notes Receivable

Accounts receivable represents amounts due from customers for which revenue has been recognized. Normal terms on trade accounts receivable are net 30 days and some customers are offered discounts for quick pay. Notes receivable include amounts due from West Coast Tissue Service, a supplier of donors to the Company. The Company performs credit evaluations when considered necessary, but generally does not require collateral to extend credit.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing receivables. The Company determines the allowance based on factors such as historical collection experience, customer's current creditworthiness, customer concentration, age of accounts receivable balance and general economic conditions that may affect a customer's ability to pay. Actual customer collections could differ from estimates. Account balances are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions to the allowance for doubtful accounts are charged to expense. The Company does not have any off-balance sheet credit exposure related to its customers.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the specific identification method and includes materials, labor and overhead.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, generally three to seven years for computers and equipment, and 30 years for buildings. Repairs and maintenance are expensed as incurred.

Intangible Assets

Intangible assets include costs to acquire and protect Company patents and are carried at cost less accumulated amortization. The Company amortizes these assets on a straight-line basis over their estimated useful lives of 15 years.

Grants

As part of the Company’s efforts to build the development of new technologies, tissue donation and expansion of tissue supply, the Company, may, from time-to-time either provide or receive grants. These grants receipts are used for research and development efforts.

(1) Business Description and Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenue is recognized when all of the following criteria are met: a) the Company has entered into a legally binding agreement with the customer; b) the products or services have been delivered; c) the Company's fee for providing the products and services is fixed and determinable; and d) collection of the Company's fee is probable.

The Company's policy is to record revenue net of any applicable sales, use, or excise taxes. If an arrangement includes a right of acceptance or a right to cancel, revenue is recognized when acceptance is received or the right to cancel has expired.

The Company sells to certain customers under consignment arrangements whereby the Company ships product to be stored by the customer. The customer is required to report the use to the Company and upon such notice the Company invoices the customer.

Research and development services revenue is recognized as performed, based on the incurrence of qualifying costs or achievement of milestones as prescribed in the arrangement.

Research and Development

Research and development costs, which are principally related to internal costs for the development of new technologies and processes for tissue and coatings, are expensed as incurred.

Income Taxes

The Company records income taxes under the asset and liability method as prescribed under FASB Accounting Standards Codification ASC 740, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When applicable, a valuation allowance is established to reduce any deferred tax asset when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Impairment of Long-Lived Assets

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairments of long-lived assets have been identified in any of the periods presented.

Net Income (Loss) Per Share

A reconciliation of the denominator used in the calculation of basic and diluted net income (loss) per share is as follows:

Net Income (Loss) Per Share:	Year Ended December 31,	
	2009 (restated)	2008
Net Income (Loss)	(4,125,742)	$ (239,312)
Weighted average common shares outstanding for basic net income (loss) per share	52,911,010	49,428,393

Dilutive earnings per share are not reported as their effects are anti-dilutive.

(1) Business Description and Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

On January 1, 2006, the Company adopted the provisions of ASC 718-40, for its stock-based compensation plans. Under ASC 718, stock-based compensation costs are recognized based on the estimated fair value at the grant date for all stock-based awards. The Company estimates grant date fair values using the Black-Scholes-Merton option pricing model, which requires assumptions of the life of the award and the stock price volatility over the term of the award. The Company records compensation cost of stock-based awards using the straight line method, which is recorded into earnings over the vesting period of the award. Pursuant to the income tax provisions included in ASC 718-740, the Company has elected the "short cut method" of computing its hypothetical pool of additional paid-in capital that is available to absorb future tax benefit shortfalls.

Comprehensive Income (Loss)

Comprehensive loss includes net income or loss, as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company currently does not have any transactions that qualify for accounting and inclusion as other comprehensive income (loss).

Fair Value of Financial Instruments

The carrying values of financial instruments, including accounts receivable, notes receivable, accounts payable and other accrued expenses, approximate their fair values.

(2) Notes Receivable

Notes receivable consist of the following:

	Year Ended December 31, 2009	2008
West Coast Tissue Service, Inc.	$ 270,565	$ 189,387

West Coast Tissue Service, Inc. is a non-profit corporation organized under Section 501(c)(3) of the Internal Revenue Code. The Company has contracted with West Coast Tissue Service to acquire their donor tissue for use in the Company's production. If the Company were unable to continue to receive donor tissue, it may have a material effect on Bacterin's financial statements and results of operations. The notes are non-interest bearing and are expected to be repaid during 2010.

(3) Inventories

Inventories consist of the following:

	December 31, 2009	2008
Raw materials	$ 178,754	$ 145,186
Raw materials	1,100,252	1,291,179
Work in process	1,282,080	735,916
Finished goods	2,499,627	2,037,409
	5,060,713	4,209,690
Reserve	60,000	51,000
	$ 5,000,713	$ 4,158,690

(4) Property and Equipment, Net

Property and equipment, net are as follows:

	December 31,	
	2009	2008
Buildings	$ 1,613,628	$ 1,590,475
Equipment	2,542,855	2,553,053
Computer equipment	235,566	202,035
Computer software	140,071	127,867
Furniture and fixtures	75,007	75,007
Leasehold improvements	898,248	881,938
Vehicles	101,110	101,110
Total cost	5,606,485	5,551,485
Less: accumulated depreciation	(2,358,389)	(1,729,346)
	$ 3,248,096	$ 3,802,139

Maintenance and repairs expense for the years ended December 31, 2009 and 2008, was $43,328 and $67,863, respectively. Depreciation expense related to property, plant and equipment, including property under capital lease, for the years ended December 31, 2009 and 2008 was $661,847 and $508,392, respectively. Depreciation included in inventory and cost of goods sold for the years ended December 31, 2009 and 2008 was $192,500 and $251,076, respectively.

(5) Intangible assets

Bacterin has been issued various patents with regards to processes for their products.

The following table sets forth information regarding intangible assets:

	Intellectual Property
As of December 31, 2008:	
Gross carrying value	$ 658,895
Accumulated amortization	(110,123)
Net carrying value	$ 548,772
As of December 31, 2009:	
Gross carrying value	$ 710,471
Accumulated amortization	(156,203)
Net carrying value	$ 554,268
Aggregate amortization expense:	
2008	$ 38,889
2009	$ 46,080
Estimated amortization expense:	
2010	$ 47,364
2011	$ 47,364
2012	$ 47,364
2013	$ 47,364
2014	$ 47,364

(6) Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 2009	December 31, 2008
Credit cards	$ 10,764	$ 16,182
Accrued interest payable	45,382	112,536
Wages payable	377,484	40,439
Other accrued expenses	-	84,381
	$ 463,630	$ 253,538

(7) Notes Payable

Notes payable consist of the following:

	December 31, 2009	December 31, 2008
Note payable Kevin Daly	$ 200,000	$ -
Note payable Hamilton Group	426,693	-
Notes payable Flathead Bank	500,000	1,000,000
	$ 1,126,693	$ 1,000,000

The note payable to Kevin Daly was a 30-day note payable bearing interest at 15% and was repaid in January 2009. The notes payable Flathead Bank are 6.5% short-term notes with monthly payments of $3,728 and maturing on June 25, 2010. The notes payable Hamilton Group is a note due under a factoring contract, secured by accounts receivable.

(8) Convertible Notes Payable

	December 31, 2009 (restated)	December 31, 2008
12% convertible note payable, maturing in 2010, extendable by the Company for two additional three month terms, secured by intellectual property and the raw material inventory, convertible into the securities offered in a future qualified offering, defined as the sale of debt or equity securities generating aggregate gross proceeds of at least $7,000,000, equal to the lower of $0.80 per share or ninety percent (90%) of the per share price of the securities sold to investors in the Qualified Financing if one occurs or convertible anytime into common stock at $1.00 per share, restrictive covenants were in compliance as of December 31, 2009 (net of debt discount). The debt discount is the value of the warrants that were issued.	$ 480,787	$ -
10% convertible notes payable, maturing in 2010, secured by all assets after subordination to other creditors with pre-existing rights to those assets, convertible into shares of common stock – notes were repaid in January and February 2010	340,000	2,340,000
	$ 820,787	$ 2,340,000

(9) Long-Term Debt

Long-term debt consists of the following:

	December 31, 2009	2008
6.5% loan payable to Flathead Bank, $7,278 monthly payments including interest, maturing June 25, 2010, secured by building	$ 976,218	$ 993,996
8.50% loan payable to Flathead Bank, $9,329 monthly payments, including interest, maturing in 2012, secured by equipment	293,052	367,376
5.00% loan payable to the City of Belgrade, $3,653 monthly payments, including interest, maturing in 2012, secured by equipment	141,215	149,158
5.00% loan payable to the City of Belgrade, $6,982 monthly payments, including interest, maturing in 2010, secured by equipment	39,044	118,557
5.00% loan payable to Valley Bank of Belgrade, $4,140 monthly payments including interest, secured by building	165,590	187,303
8.00% loan payable to Valley Bank of Belgrade, $4,140 monthly payments including interest, secured by building	-	34,059
	1,615,119	1,850,449
Less: Current portion	(1,202,574)	(1,286,571)
	$ 412,545	$ 563,878

The following is a summary of maturities due on the long-term debt as of December 31, 2009:

2010	$ 1,202,574
2011	190,238
2012	180,029
2013	42,278
Thereafter	-
Total	$ 1,615,119

(10) Capital Leasing Transactions

Future minimum capital and operating lease payments are as follows:

	December 31, 2009	December 31, 2008
2009	$ -	$ 212,019
2010	93,752	39,519
2011	28,920	30,055
2012	-	-
Thereafter	-	-
Total minimum lease payments	122,672	281,593
Less interest portion of payments	(10,527)	(27,931)
Present value of future minimum lease payments	112,145	253,662
Less current maturities of capital lease obligation	(85,071)	(190,989)
Capital lease obligation	$ 27,074	$ 62,673

(11) Notes Payable to Shareholders

Notes payable to shareholders consist of the following:

	December 31, 2009	December 31, 2008
Note payable shareholders	$ 76,969	$ -
Note payable Mitch Godfrey	106,492	154,032
	$ 183,461	$ 154,032

During 2009, the Company repurchased stock from two shareholders pursuant to a tender process. These notes were given in payment for the stock and accrued interest at six percent during the initial term with a maturity of September 29, 2009. When the notes were not paid on the initial maturity date, they were automatically extended for an additional four months with a new interest rate of eight percent. If not paid at the second maturity date, these notes will automatically extend for an additional four months at an interest rate of ten percent. The note payable to Mitch Godfrey does not have specified payment terms and bears 6% interest per annum.

(12) Related Party Transaction – ReGenCell, Inc.

ReGenCell, Inc. is a Montana corporation owned 100% by Guy Cook. On January 1, 2008, Bacterin International, Inc. acquired all of the assets of ReGenCell, Inc.:

Cash	$ 1,158
Employee receivable – Guy Cook	32,700
Employee receivable – Mitchell Godfrey	17,763
Employee receivable – other	31,267
Fixed assets (at cost)	88,975
Accounts receivable – Bacterin International, Inc.	30,000
Notes receivable – Bacterin International, Inc.	59,055
Total assets purchased	$ 260,918
Bacterin assumed Valley Bank note payable	(327,466)
Bacterin assumed miscellaneous payables	(2,200)
Bacterin reduced its payable to Guy Cook	68,748
	$ 0

Guy Cook agreed to reduce his note receivable from Bacterin by the difference between the liabilities assumed and the assets purchased ($68,748). Upon acquisition of the employee receivables, Bacterin reduced its notes payable to Guy Cook and Mitchell Godfrey by $32,700 and $17,763, respectively.

(13) Stock-Based Compensation

The Company's 2004 Stock Incentive Plan provides for stock awards, including options and performance stock awards, to be granted to employees, consultants, independent contractors, officers and directors. Awards are granted at the discretion of the Company's board of directors, at an exercise price and term determined by the board. However, exercise prices are not less than the fair market value at the date of grant, and the term of the options is not greater than ten years. Options generally vest annually over a period of five years. At December 31, 2009, the Company had approximately 12 million shares available for issuance under the equity plan.

Compensation expense recognized in the statement of operations for the year ended December 31, 2009 and 2008 is based on awards ultimately expected to vest and reflects an estimate of awards that will be forfeited. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Compensation expense recognized and capitalized for the years ended December 31, 2009 and 2008 was $597,355 and $235,974 respectively.

The estimated fair value of stock options granted is done using the Black-Sholes method applied to individual grants. Key assumptions used to estimate the fair value of stock awards are as follows:

Risk Free Rate: The risk-free rate is determined by reference to U.S. Treasury yields at or near the time of grant for time periods similar to the expected term of the award.

Expected Term: The Company does not have adequate history to estimate an expected term of stock-based awards, and accordingly, uses the short-cut method as prescribed by Staff Accounting Bulletin 107 to determine an expected term.

Volatility: Since the Company's stock is not publicly-traded, the Company estimates expected volatility based on peer-companies as prescribed by ASC 718.

Dividend Yield: The dividend yield assumption is based on the Company's history and expectation of dividend payouts and was 0% as of December 31, 2009 and 2008.

Activity under the Company's stock option plans was as follows:

	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Jan. 1,	3,998,326	$ 0.59	3,414,744	$ 0.55
Granted	2,995,000	0.76	1,384,083	0.75
Exercised		0.05		
Cancelled or expired	(286,334)	0.59	(800,501)	0.87
Outstanding at December 31,	6,706,992	$ 0.67	3,998,326	$ 0.59
Exercisable at December 31,	3,006,901	$ 0.56	1,939,911	$ 0.44

(14) Stock-Based Compensation (continued)

The following table summarizes information concerning non-vested option transactions for the year ended December 31, 2009:

Nonvested Options	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested at January 1, 2009	2,058,415	$ 0.61
Granted	2,995,000	0.76
Vested	(1,172,138)	0.73
Forfeited	(181,186)	0.77
Nonvested at December 31, 2009	3,700,091	$ 0.75

From time to time the Company may grant stock options to consultants. The Company accounts for consultant stock options in accordance with ASC 505-50. Compensation expense for the grant of stock options to consultants is determined based on the estimated fair value of the warrants at the measurement date as defined in ASC 505-50 and is recognized over the vesting period.

In connection with private placements of convertible debt, short-term debt, and common stock, the Company issued warrants to purchase shares of common stock at an exercise price of between $0.5565 and $1.25 per share. During 2009, 80,000 warrants were issued with private placements of common stock, 180,000 warrants were issued with the placement of short-term debt and 220,000 warrants were issued with the placement of convertible notes. In 2008, 1,390,607, 100,000 and 976,288 warrants were issued in connection with convertible debt, short-term debt and common stock, respectively. The warrants were exercisable five to seven years from the date of grant. Warrants issued with common stock were recorded as additional paid in capital at the estimated fair market value of $13,601 in 2009 and $348,117 in 2008. The warrants issued with convertible debt and short-term loans were recorded as interest expense over the term of the debt at the estimated fair value of $62,183 in 2009 and $939,545 in 2008 using the following assumptions:

	2009	2008
Value of underlying common stock (per share)	$ .80	$ 0.75
Risk free rate	2.20%	1.87%
Expected term	2.5-5 years	5-7 years
Dividend yield	0%	0%
Volatility	44-61%	86%

(15) Commitments and Contingencies

Operating Leases

The Company leases office facilities under a non-cancelable operating lease agreement with an expiration date in 2013. The Company has the option to extend the lease for another ten year term and has right of first refusal on any sale. The Company leases additional office facilities under month-to-month arrangements. Future minimum payments for the next five years and thereafter as of December 31, 2009, under these leases, are as follows:

2010	$ 120,000
2011	$ 120,000
2012	$ 120,000
2013	$ 72,258
Thereafter	$ -

Rent expense was $162,766 and $124,200 in 2009 and 2008, respectively. Rent expense is determined using the straight-line method of the minimum expected rent paid over the term of the agreement. The Company has no contingent rent agreements.

Warranties and Indemnification

The Company's arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third-party's intellectual property rights. To date, the Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying financial statements.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as the Company's director or officer or that person's services provided to any other company or enterprise at the Company's request.

Litigation

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business. The Company believes that the resolution of these matters will not have a material effect on the Company's financial position, results of operations or liquidity. Legal fees are charged to expense as incurred, unless the probability of incurring a loss is high and the amount can be reasonably estimated, in which case the estimated loss is accrued.

(16) Income Taxes

The components of income (loss) before provision for income taxes consist of the following:

	Year Ended December 31,	
	2009 (restated)	2008
United States	$ (4,125,742)	$ (239,312)
	$ (4,125,742)	$ (239,312)

The components of the income tax provision are as follows:

	Year Ended December 31,	
	2009	2008
Current:		
Federal	$ -	$ -
State	-	-
Total current	-	-
Deferred:		
Federal	-	-
State	-	-
Total deferred	-	-
	$ -	$ -

The reconciliation of income tax attributable to operations computed at the U.S. Federal statutory income tax rate of 35% to income tax expense is as follows:

	Year Ended December 31,	
	2009	2008
Statutory Federal tax rate	$(1,444,010)	$ (83,759)
Valuation allowance	1,733,385	94,532
State income taxes, net of Federal benefit	(289,452)	(16,513)
Nondeductible meals & entertainment expense	24,301	5,740
Other	-	-
	$ -	$ -

(17) Income Taxes (continued)

Deferred tax components are as follows:

	At December 31,	
	2009	2008
Deferred tax assets:		
Accrued liability for vacation	$ 85,734	$ 35,355
Accrued commission expense	48,318	-
Bad debt reserve	34,275	38,917
Inventory reserve	25,140	21,369
Net operating loss carryovers	3,654,421	2,401,066
Stock warrant expense	843,321	843,321
Debt issuance expense	817,461	766,977
Stock compensation	661,296	411,005
Total deferred tax assets	6,169,966	4,518,010
Valuation allowance	(6,028,262)	(4,324,140)
Net deferred tax assets	141,704	193,870
Deferred tax liabilities:		
Depreciation	(179,774)	(232,478)
Amortization	38,070	38,608
Total deferred tax liabilities	(141,704)	(193,870)
Net deferred tax assets	$ -	$ -

The ultimate realization of deferred tax assets is dependent upon the existence, or generation, of taxable income in the periods when those temporary differences and net operating loss carryovers are deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in carryover years, projected future taxable income, available tax planning strategies, and other factors in making this assessment. Based on available evidence, management does not believe it is more likely than not that all of the deferred tax assets will be realized. Accordingly, the Company has established a valuation allowance equal to the net realizable deferred tax assets. The valuation allowance increased by $1,704,122 and $93,399 in 2009 and 2008, respectively.

At December 31, 2009 and 2008, the Company had total domestic Federal and state net operating loss carryovers of approximately $8,652,555 and $5,758,769, respectively. Federal net operating loss carryovers expire at various dates between 2027 and 2029, while state net operating loss carryovers expire between 2024 and 2029.

Under the Tax Reform Act of 1986, as amended, the amounts of and benefits from net operating loss carryovers and research and development credits may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50%, as defined, over a three year period. The Company does not believe that such an ownership change has occurred in 2009 or 2008.

The 2006 through 2008 tax years remain open to examination by the Internal Revenue Service and the 2004 to 2008 tax years remain open to the Montana Department of Revenue. These taxing authorities have the authority to examine those tax years until the applicable statute of limitations expire.

(18) Employee Benefit Plans

The Company has a SIMPLE IRA retirement plan established for qualified employees. Qualified employees may defer their salary and the deferrals are matched up to 3% of eligible compensation by the Company. The plan covers substantially all full-time employees. Under the terms of the plan, participants may contribute up to the lower of $10,500 of their salary or the statutorily prescribed limit to the plan. Employees are eligible the first January after their hire date. The Company made matching contributions during 2009 and 2008 of $131,709 and $46,993, respectively.

(19) Supplemental Disclosure of Cash Flow Information

Supplemental cash flow information is as follows:

	Year Ended December 31,	
	2009	2008
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 276,074	$ 308,881
Income taxes	-	-
Non-cash investing and financing activities:		
Acquisition of receivables/equipment with assumed debt (see note 12)	$ -	$ 259,760
Acquisition of property and equipment under capital lease	$ 65,715	$ -
Acquisition of treasury stock using notes payable	$ 76,566	$ -
Conversion of convertible notes payable into common stock	$ 2,000,000	$ -

(20) Subsequent Events

In January and February 2010, the Company issued an additional $2,450,000 of convertible notes on the same terms as the $550,000 of convertible notes issued in December 2009. The Company also renegotiated the convertible note agreements issued in December 2009 to include additional warrants as incentives for entering into these agreements so that all note agreements issued have the same terms and incentives.

In January and February 2010, the Company repaid all $340,000 of the 2008 convertible notes payable that were outstanding as of December 31, 2009.

EXHIBIT 99.2

BACTERIN INTERNATIONAL, INC.
Balance Sheets
As of March 31, 2010 and December 31, 2009

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 280,103	$ 54,155
Accounts receivable, net of allowance of $88,164 and $81,803, respectively	1,558,944	1,314,418
Notes receivable - trade	426,565	270,565
Notes receivable from stockholder	22,178	-
Inventories, net	5,556,378	5,000,713
Prepaid and other current assets	40,000	30,000
	7,884,168	6,669,851
Property & equipment, net	3,136,498	3,248,096
Intangible assets, net	557,627	554,268
Other assets	13,675	13,675
	$ 11,591,968	$ 10,485,890
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Warrant derivative liability	$ 515,227	$ 75,231
Accounts payable	1,252,695	1,403,950
Accrued liabilities	571,750	463,630
Notes payable	740,615	1,126,693
Notes payable to stockholders	183,461	183,461
Current portion of capital lease obligations	69,584	85,071
Convertible notes payable ($3,825,000 net of debt discount of $308,837)	3,516,163	820,787
Current portion of long-term debt	1,193,591	1,202,574
	8,043,086	5,361,397
Capital lease obligation, less current portion	17,474	27,074
Long-term debt, less current portion	333,548	412,545
	8,394,108	5,801,016
Stockholders' Equity		
Preferred stock, $.0001 par value; 15,000,000 shares authorized; No shares issued and outstanding	-	-
Common stock, $.00001 par value; 135,000,000 shares authorized; 56,501,130 issued and outstanding shares on March 31 2010 and 56,423,125 issued and outstanding shares on December 31, 2009	565	565
Additional paid-in capital	22,394,210	22,238,210
Treasury stock, 117,794 shares	(76,566)	(76,566)
Retained deficit	(19,120,349)	(17,477,335)
	3,197,860	4,684,874
	$ 11,591,968	$ 10,485,890

See Accompanying Notes to Financial Statements.

BACTERIN INTERNATIONAL, INC.
Statements of Operations (unaudited)
For the Three Months Ended March 31, 2010 and 2009

	March 31,	
	2010	2009
REVENUE:		
Product sales	$ 2,707,124	$ 1,984,676
Royalties and other	29,309	113,765
TOTAL REVENUE	2,736,433	2,098,441
Cost of product sales	604,622	483,640
GROSS PROFIT	2,131,811	1,614,801
OPERATING EXPENSES:		
Selling, general, and administrative	1,671,081	793,032
Compensation expense	1,483,871	720,446
TOTAL OPERATING EXPENSES	3,154,952	1,513,478
INCOME (LOSS) FROM OPERATIONS	(1,023,141)	101,323
INTEREST AND OTHER INCOME (EXPENSE)		
Interest expense	(625,797)	(96,161)
Other	5,924	10,867
TOTAL INTEREST AND OTHER INCOME (EXPENSE), NET	(619,873)	(85,294)
NET INCOME (LOSS) BEFORE BENEFIT (PROVISION) FOR INCOME TAXES	(1,643,014)	16,029
BENEFIT (PROVISION) FOR INCOME TAXES	-	-
NET INCOME (LOSS)	$ (1,643,014)	$ 16,029
Net income (loss) per share:		
Basic	$ (.03)	$ .00
Shares used in the computation:		
Basic	56,461,755	51,217,984

See Accompanying Notes to Financial Statements.

BACTERIN INTERNATIONAL, INC.
Statements of Changes in Stockholders' Equity (Deficit) (unaudited)
For the Three Months Ended March 31, 2009 and Year Ended December 31, 2009

	Common Stock Shares	Common Stock Amount	APIC Options/ Warrants	Additional paid-in capital	Retained Deficit	Treasury Stock	Total stockholders' equity (deficit)
Balance at December 31, 2008	50,738,134	$ 507	$ 3,744,383	$ 13,229,475	$ (13,351,593)	$ -	$ 3,622,772
Private placement	2,437,500	24	13,601	1,936,375	-	-	1,950,000
Conversion of notes to common stock	3,020,285	30	-	2,414,847	-	-	2,414,877
Purchase of treasury stock	(117,794)	-	-	-	-	(76,566)	(76,566)
Warrants for debt issuance	-	-	62183	-	-	-	62,183
Stock-based compensation	345,000	4	561,355	275,991	-	-	837,350
Net loss	-	-	-	-	(4,125,742))	-	(4,125,742)
Balance at December 31, 2009	56,423,125	$ 565	$ 4,381,522	$ 17,856,688	$ (17,477,335)	(76,566)	$ 4,684,874
Issuance of common stock, options and warrants:							
Private placement	12,500	-	-	10,000	-	-	10,000
Conversion of notes/interest to common stock	65,505	-	-	52,404	-	-	52,404
Stock based compensation	-	-	93,596	-	-	-	93,596
Warrants for debt/equity issuance	-	-	-	-	-	-	-
Net income	-	-	-	-	(1,643,014)	-	(1,643,014)
Balance at March 31, 2010	56,501,130	565	4,475,118	17,919,092	(19,120,349)	(76,566)	3,197,860

See Accompanying Notes to Financial Statements.

BACTERIN INTERNATIONAL, INC.

Statements of Cash Flows (unaudited)
For the Three Months Ended March 31, 2010 and 2009

	Three Months Ended March 31,	
	2010	2009
Operating activities:		
Net income (loss)	$ (1,643,014)	$ 16,029
Noncash adjustments:		
Depreciation and amortization	164,578	174,766
Stock/option awards for services	93,596	155,794
Provision for losses on accounts receivable and inventory	17,117	4,000
Non-cash interest expense	252,776	5,909
Changes in operating assets and liabilities:		
Accounts receivable	(250,887)	(325,432)
Notes receivable - trade	(156,000)	(74,702)
Inventories	(566,421)	(361,584)
Prepaid and other current assets	(10,000)	3,803
Accounts payable	(151,255)	(128,813)
Accrued liabilities	108,120	(48,536)
Net cash provided by operating activities	(2,141,390)	(578,766)
Investing activities:		
Purchases of property and equipment	(40,903)	(112,988)
Notes receivable from stockholder	(22,178)	(27,169)
Intangible asset additions	(15,436)	(13,817)
Proceeds on sale of fixed assets	-	-
	(78,517)	(153,974)
Financing activities:		
Release on restriction on cash	-	1,000,000
Payments on long-term debt	(87,980)	(23,955)
Proceeds from issuance of convertible debt	3,275,000	-
Payments on convertible debt	(340,000)	-
Payments on notes payable	(386,078)	(500,000)
(Payments on) capital leases	(25,087)	(58,695)
Proceeds from issuance of common stock	10,000	470,000
Payments on notes payable to shareholders	-	(5,171)
	2,445,855	882,179
	225,948	149,439
Cash and cash equivalents at beginning of period	54,155	238,895
Cash and cash equivalents at end of period	$ 280,103	$ 388,334

See Accompanying Notes to Financial Statements.

(1) Business Description and Summary of Significant Accounting Policies

Business Description

Bacterin International, Inc. ("the "Company" or "Bacterin") develops, manufactures and markets biologics products to domestic and international markets. Bacterin's 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.

Bacterin's device division develops anti-microbial coatings to inhibit infection based upon proprietary knowledge of the phenotypical changes made by microbes as they sense and adapt to changes in their environment. Bacterin develops, employs, and licenses bioactive coatings for various medical device applications. Bacterin's strategic coating initiatives include the inhibition of biofilm formation, local (as opposed to systemic) drug delivery, local (as opposed to systemic) pain management, and anti-thrombotic factors for medical device applications.

Certain Risks and Concentrations

The Company's revenue is derived principally from the sale or license of its medical products, coatings and device implants. The markets in which the Company competes are highly competitive and rapidly changing. Significant technological advances, changes in customer requirements, or the emergence of competitive products with new capabilities or technologies could adversely affect the Company's operating results. The Company's business could be harmed by a decline in demand for, or in the prices of, its products or as a result of, among other factors, any change in pricing or distribution model, increased price competition, changes in government regulations or a failure by the Company to keep up with technological change. Further, a decline in available tissue donors could have an adverse impact on the business.

Financial instruments subjecting the Company to concentrations of credit risk are accounts and notes receivable. The Company maintains cash, cash equivalents, and short-term investments with various domestic financial institutions. From time to time, the Company's cash balances with its financial institutions may exceed insurance limits.

The Company's customers are worldwide with approximately 93% of sales in the United States for the three months ended March 31, 2010. One customer accounted for 15% of revenue for the three months ended March 31, 2010. One customer accounted for 13% of the Company's revenue for the three months ended March 31, 2009. One customer represented 13% of accounts receivable at March 31, 2010 and one customer represented 13% of accounts receivable at March 31, 2009.

Revenue by geographical region is as follows:

	For the three months ended March 31,	
	2010	2009
United States	$ 2,545,661	$ 1,901,264
Rest of World	192,794	200,402
	$ 2,738,455	$ 2,101,666

Use of Estimates

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period; the carrying amount of property and equipment and intangible assets; valuation allowances for receivables and deferred income tax assets; and estimates of expected term and volatility in determining stock-based compensation expense. Actual results could differ from those estimates.

(1) Business Description and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates market value.

Accounts Receivable and Notes Receivable - Trade

Accounts receivable represents amounts due from customers for which revenue has been recognized. Normal terms on trade accounts receivable are net 30 days and some customers are offered discounts for quick pay. Notes receivable include amounts due from West Coast Tissue Service, a supplier of donors to the Company. The Company performs credit evaluations when considered necessary, but generally does not require collateral to extend credit.

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing receivables. The Company determines the allowance based on factors such as historical collection experience, customer's current creditworthiness, customer concentration, age of accounts receivable balance and general economic conditions that may affect a customer's ability to pay. Actual customer collections could differ from estimates. Account balances are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions to the allowance for doubtful accounts are charged to expense. The Company does not have any off-balance sheet credit exposure related to its customers.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the specific identification method and includes materials, labor and overhead.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, generally three to seven years for computers and equipment, and 30 years for buildings. Repairs and maintenance are expensed as incurred.

Intangible Assets

Intangible assets include costs to acquire and protect Company patents and are carried at cost less accumulated amortization. The Company amortizes these assets on a straight-line basis over their estimated useful lives of 15 years.

Grants

As part of the Company’s efforts to build the development of new technologies, tissue donation and expansion of tissue supply, the Company, may, from time-to-time either provide or receive grants. These grants receipts are used for research and development efforts.

(1) Business Description and Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenue is recognized when all of the following criteria are met: a) the Company has entered into a legally binding agreement with the customer; b) the products or services have been delivered; c) the Company's fee for providing the products and services is fixed and determinable; and d) collection of the Company's fee is probable.

The Company's policy is to record revenue net of any applicable sales, use, or excise taxes. If an arrangement includes a right of acceptance or a right to cancel, revenue is recognized when acceptance is received or the right to cancel has expired.

The Company sells to certain customers under consignment arrangements whereby the Company ships product to be stored by the customer. The customer is required to report the use to the Company and upon such notice the Company invoices the customer.

Research and development services revenue is recognized as performed, based on the incurrence of qualifying costs or achievement of milestones as prescribed in the arrangement.

Research and Development

Research and development costs, which are principally related to internal costs for the development of new technologies and processes for tissue and coatings, are expensed as incurred.

Income Taxes

The Company records income taxes under the asset and liability method as prescribed under FASB Accounting Standards Codification ASC 740, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When applicable, a valuation allowance is established to reduce any deferred tax asset when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Impairment of Long-Lived Assets

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairments of long-lived assets have been identified in any of the periods presented.

Net Income (Loss) Per Share

A reconciliation of the denominator used in the calculation of basic and diluted net income (loss) per share is as follows:

Net Income (Loss) Per Share:	March 31,	
	2010	2009
Net Income (Loss)	(1,643,014)	$ 16,030
Weighted average common shares outstanding for basic net income (loss) per share	56,461,755	51,217,984

Dilutive earnings per share are not reported as their effects are anti-dilutive.

(1) Business Description and Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

On January 1, 2006, the Company adopted the provisions of ASC 718-40, for its stock-based compensation plans. Under ASC 718, stock-based compensation costs are recognized based on the estimated fair value at the grant date for all stock-based awards. The Company estimates grant date fair values using the Black-Scholes-Merton option pricing model, which requires assumptions of the life of the award and the stock price volatility over the term of the award. The Company records compensation cost of stock-based awards using the straight line method, which is recorded into earnings over the vesting period of the award. Pursuant to the income tax provisions included in ASC 718-740, the Company has elected the "short cut method" of computing its hypothetical pool of additional paid-in capital that is available to absorb future tax benefit shortfalls.

Comprehensive Income (Loss)

Comprehensive loss includes net income or loss, as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company currently does not have any transactions that qualify for accounting and inclusion as other comprehensive income (loss).

Fair Value of Financial Instruments

The carrying values of financial instruments, including accounts receivable, notes receivable, accounts payable and other accrued expenses, approximate their fair values.

(2) Notes Receivable - Trade

Notes receivable consist of the following:

	March 31, 2010	December 31, 2009
West Coast Tissue Service, Inc.	$ 426,565	$ 270,565

West Coast Tissue Service, Inc. is a non-profit corporation organized under Section 501(c)(3) of the Internal Revenue Code. The Company has contracted with West Coast Tissue Service to acquire their donor tissue for use in the Company's production. If the Company were unable to continue to receive donor tissue, it may have a material effect on Bacterin's financial statements and results of operations. The notes are non-interest bearing and are expected to be repaid during 2010.

(3) Inventories

Inventories consist of the following:

	March 31, 2010	December 31, 2009
Raw materials	$ 178,754	$ 178.754
Raw materials	1,047,966	1,100,252
Work in process	1,321,402	1,282,080
Finished goods	3,079,012	2,499,627
	5,627,134	5,060,713
Reserve	70,756	60,000
	$5,556,378	$ 5,000,713

(4) Property and Equipment, Net

Property and equipment, net are as follows:

	March 31, 2010	December 31, 2009
Buildings	$ 1,613,628	$ 1,613,628
Equipment	2,616,562	2,575,659
Computer equipment	235,566	235,566
Computer software	140,071	140,071
Furniture and fixtures	75,007	75,007
Leasehold improvements	898,248	898,248
Vehicles	68,306	68,306
Total cost	5,647,388	5,606,485
Less: accumulated depreciation	(2,510,890)	(2,358,389)
	$ 3,136,498	$ 3,248,096

Maintenance and repairs expense for the three months ended March 31, 2010 and December 31, 2009, was $25,661 and $43,328, respectively. Depreciation expense related to property, plant and equipment, including property under capital lease, for the three months ended March 31, 2010 and 2009 was $152,501 and $163,575, respectively.

(5) Intangible assets

Bacterin has been issued various patents with regards to processes for their products.

The following table sets forth information regarding intangible assets:

	Intellectual Property
As of December 31, 2009:	
Gross carrying value	$ 710,471
Accumulated amortization	(156,203)
Net carrying value	$ 554,268
As of March 31, 2010:	
Gross carrying value	$ 725,907
Accumulated amortization	(168,280)
Net carrying value	$ 557,627
Aggregate amortization expense:	
December 31, 2009	$ 46,080
March 31, 2010	$ 12,077
Estimated amortization expense:	
2010	$ 47,364
2011	$ 47,364
2012	$ 47,364
2013	$ 47,364
2014	$ 47,364

(6) Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2010	December 31, 2009
Credit cards	$ -	$ 10,764
Accrued interest payable	26,073	75,382
Wages payable	545,677	377,484
Other accrued expenses	-	-
	$ 571,750	$ 463,630

(7) Notes Payable

Notes payable consist of the following:

	March 31, 2010	December 31, 2009
Note payable Kevin Daly	$ -	$ 200,000
Note payable Hamilton Group	240,615	426,693
Notes payable Flathead Bank	500,000	500,000
	$ 740,615	$ 1,126,693

The note payable to Kevin Daly was a 30-day note payable bearing interest at 15% and was repaid in January 2010. The notes payable Flathead Bank are 6.5% short-term notes with monthly payments of $3,728 and maturing on June 25, 2010. The notes payable Hamilton Group is a note due under a factoring contract, secured by accounts receivable.

(8) Convertible Notes Payable

	March 31, 2010	December 31, 2009
12% convertible note payable, maturing in 2010, extendable by the Company for two additional three month terms, secured by intellectual property and the raw material inventory, convertible into the securities offered in a future qualified offering, defined as the sale of debt or equity securities generating aggregate gross proceeds of at least $7,000,000, equal to the lower of $0.80 per share or ninety percent (90%) of the per share price of the securities sold to investors in the Qualified Financing if one occurs or convertible anytime into common stock at $1.00 per share, restrictive covenants were in compliance as of December 31, 2009	$ 3,825,000	$ 890,000
Less: debt discount	308,837	69,213
	$ 3,516,163	$ 820,787

(9) Long-Term Debt

Long-term debt consists of the following:

	March 31, 2010	December 31, 2009
6.5% loan payable to Flathead Bank, $7,278 monthly payments including interest, maturing June 25, 2010, secured by building	$ 974,274	$ 976,218
8.50% loan payable to Flathead Bank, $9,329 monthly payments, including interest, maturing in 2012, secured by equipment	269,264	293,052
5.00% loan payable to the City of Belgrade, $3,653 monthly payments, including interest, maturing in 2012, secured by equipment	118,011	141,215
5.00% loan payable to the City of Belgrade, $6,982 monthly payments, including interest, maturing in 2010, secured by equipment	-	39,044
5.00% loan payable to Valley Bank of Belgrade, $4,140 monthly payments including interest, secured by building	165,590	165,590
8.00% loan payable to Valley Bank of Belgrade, $4,140 monthly payments including interest, secured by building	-	-
	1,527,139	1,615,119
Less: Current portion	(1,193,591)	(1,202,574)
	$ 333,548	$ 412,545

The following is a summary of maturities due on the long-term debt as of March 31, 2010:

2010	$ 1,193,591
2011	195,608
2012	137,940
2013	-
Thereafter	-
Total	$ 1,527,139

(10) Capital Leasing Transactions

Future minimum capital and operating lease payments are as follows:

2010	93,752
2011	28,920
2012	-
Thereafter	-

(11) Notes Payable to Shareholders

Notes payable to shareholders consist of the following:

	March 31, 2010	December 31, 2009
Note payable shareholders	$ 76,969	$ 76,969
Note payable Mitch Godfrey	106,492	106,492
	$ 183,461	$ 183,461

During 2009, the Company repurchased stock from two shareholders pursuant to a tender process. These notes were given in payment for the stock and accrued interest at six percent during the initial term with a maturity of September 29, 2009. When the notes were not paid on the initial maturity date, they were automatically extended for an additional four months with a new interest rate of eight percent. If not paid at the second maturity date, these notes will automatically extend for an additional four months at an interest rate of ten percent. The note payable to Mitch Godfrey does not have specified payment terms and bears 6% interest per annum.

(12) Stock-Based Compensation

The Company's 2004 Stock Incentive Plan provides for stock awards, including options and performance stock awards, to be granted to employees, consultants, independent contractors, officers and directors. Awards are granted at the discretion of the Company's board of directors, at an exercise price and term determined by the board. However, exercise prices are not less than the fair market value at the date of grant, and the term of the options is not greater than ten years. Options generally vest annually over a period of five years. At March 31, 2010, the Company had approximately 12 million shares available for issuance under the equity plan.

Compensation expense recognized in the statement of operations for the three months ended March 31, 2010 and 2009 is based on awards ultimately expected to vest and reflects an estimate of awards that will be forfeited. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The estimated fair value of stock options granted is done using the Black-Sholes method applied to individual grants. Key assumptions used to estimate the fair value of stock awards are as follows:

Risk Free Rate: The risk-free rate is determined by reference to U.S. Treasury yields at or near the time of grant for time periods similar to the expected term of the award.

Expected Term: The Company does not have adequate history to estimate an expected term of stock-based awards, and accordingly, uses the short-cut method as prescribed by Staff Accounting Bulletin 107 to determine an expected term.

Volatility: Since the Company's stock is not publicly-traded, the Company estimates expected volatility based on peer-companies as prescribed by ASC 718.

Dividend Yield: The dividend yield assumption is based on the Company's history and expectation of dividend payouts and was 0% as of March 31, 2010 and 2009.

Activity under the Company's stock option plans was as follows:

	Three months ended March 31, 2010		Three months ended March 31, 2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Jan. 1,	6,706,992	$ 0.67	3,998,326	$ 0.59
Granted	145,000	0.48	2,050,000	0.40
Exercised		0.05		
Cancelled or expired	(152,500)	0.43	(106,186)	0.043
Outstanding at March 31,	6,699,492	$ 0.67	5,942,140	$ 0.64
Exercisable at March 31,	3,112,401	$ 0.56	1,975,308	$ 0.44

(13) Stock-Based Compensation (continued)

The following table summarizes information concerning non-vested option transactions for the year ended December 31, 2009:

Nonvested Options	Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested at January 1, 2009	3,700,091	$ 0.43
Granted	145,000	0.48
Vested	(115,500)	0.40
Forfeited	(142,500)	0.43
Nonvested at December 31, 2009	3,587,091	$ 0.43

From time to time the Company may grant stock options to consultants. The Company accounts for consultant stock options in accordance with ASC 505-50. Compensation expense for the grant of stock options to consultants is determined based on the estimated fair value of the warrants at the measurement date as defined in ASC 505-50 and is recognized over the vesting period.

In connection with private placements of convertible debt, short-term debt, and common stock, the Company issued warrants to purchase shares of common stock at an exercise price of between $0.5565 and $1.25 per share. During 2009, 80,000 warrants were issued with private placements of common stock, 180,000 warrants were issued with the placement of short-term debt and 220,000 warrants were issued with the placement of convertible notes. In 2008, 1,390,607, 100,000 and 976,288 warrants were issued in connection with convertible debt, short-term debt and common stock, respectively. The warrants were exercisable five to seven years from the date of grant. Warrants issued with common stock were recorded as additional paid in capital at the estimated fair market value of $13,601 in 2009 and $348,117 in 2008. The warrants issued with convertible debt and short-term loans were recorded as interest expense at the estimated fair value of $137,415 in 2009 and $939,545 in 2008 using the following assumptions:

	March 31, 2010	December 31, 2009
Value of underlying common stock (per share)	$ .80	$ .80
Risk free rate	1.28-1.70%	2.20%
Expected term	2.5-5 years	2,5-5
Dividend yield	0%	0%
Volatility	71%	44-61%

(14) Commitments and Contingencies

Operating Leases

The Company leases office facilities under a non-cancelable operating lease agreement with an expiration date in 2013. The Company has the option to extend the lease for another ten year term and has right of first refusal on any sale. The Company leases additional office facilities under month-to-month arrangements. Future minimum payments for the next five years and thereafter as of December 31, 2009, under these leases, are as follows:

2010	$ 120,000
2011	$ 120,000
2012	$ 120,000
2013	$ 72,258
Thereafter	$ -

Rent expense was $38,620 and $34,758 for the three months ended March 31, 2010 and 2009, respectively. Rent expense is determined using the straight-line method of the minimum expected rent paid over the term of the agreement. The Company has no contingent rent agreements.

Warranties and Indemnification

The Company's arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third-party's intellectual property rights. To date, the Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying financial statements.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by the Company, arising out of that person's services as the Company's director or officer or that person's services provided to any other company or enterprise at the Company's request.

Litigation

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business. The Company believes that the resolution of these matters will not have a material effect on the Company's financial position, results of operations or liquidity. Legal fees are charged to expense as incurred, unless the probability of incurring a loss is high and the amount can be reasonably estimated, in which case the estimated loss is accrued.

(15) Income Taxes

The components of income (loss) before provision for income taxes consist of the following:

	March 31,	
	2010	2009
United States	$ (1,643,014)	$ 16,030
	$ (1,643,014)	$ 16,030

The components of the income tax provision are as follows:

	Three months Ended March 31,	
	2010	2009
Current:		
Federal	$ -	$ -
State	-	-
Total current	-	-
Deferred:		
Federal	-	-
State	-	-
Total deferred	-	-
	$ -	$ -

The reconciliation of income tax attributable to operations computed at the U.S. Federal statutory income tax rate of 35% to income tax expense is as follows:

	Three Months Ended March 31,	
	2010	2009
Statutory Federal tax rate	$ (575,055)	$ 5,611
Valuation allowance	676,261	(8,483)
State income taxes, net of Federal benefit	(113,368)	1,106
Nondeductible meals & entertainment expense	12,162	1,766
	$ -	$ -

(17) Income Taxes (continued)

Deferred tax components are as follows:

	March 31, 2010	December 31, 2009
Deferred tax assets:		
Accrued liability for vacation	$ 85,734	$ 85,734
Accrued commission expense	73,684	48,318
Bad debt reserve	36,941	34,275
Inventory reserve	29,647	25,140
Net operating loss carryovers	3,833,439	3,654,421
Stock warrant expense	843,321	843,321
Debt issuance expense	1,216,559	846,341
Stock compensation	700,513	661,296
Total deferred tax assets	6,819,838	6,198,846
Valuation allowance	(6,704,404)	(6,057,142)
Net deferred tax assets	115,434	141,704
Deferred tax liabilities:		
Depreciation	(152,891	(179,774)
Amortization	37,457	38,070
Total deferred tax liabilities	(115,434)	(141,704)
Net deferred tax assets	$ -	$ -

The ultimate realization of deferred tax assets is dependent upon the existence, or generation, of taxable income in the periods when those temporary differences and net operating loss carryovers are deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in carryover years, projected future taxable income, available tax planning strategies, and other factors in making this assessment. Based on available evidence, management does not believe it is more likely than not that all of the deferred tax assets will be realized. Accordingly, the Company has established a valuation allowance equal to the net realizable deferred tax assets. The valuation allowance increased by $676,262 and $1,704,002 for the three months ended March 31, 2010 and year ended December 31, 2009, respectively.

At March 31, 2010 and December 31, 2009, the Company had total domestic Federal and state net operating loss carryovers of approximately $9,149,020 and $8,652,555, respectively. Federal net operating loss carryovers expire at various dates between 2027 and 2029, while state net operating loss carryovers expire between 2024 and 2029.

Under the Tax Reform Act of 1986, as amended, the amounts of and benefits from net operating loss carryovers and research and development credits may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50%, as defined, over a three year period. The Company does not believe that such an ownership change has occurred in 2010 or 2009.

The 2007 through 2009 tax years remain open to examination by the Internal Revenue Service and the 2005 to 2009 tax years remain open to the Montana Department of Revenue. These taxing authorities have the authority to examine those tax years until the applicable statute of limitations expire. As of March 31, 2010 the federal and state 2009 income tax returns were not filed, however extensions were timely filed.

(18) Employee Benefit Plans

The Company has a SIMPLE IRA retirement plan established for qualified employees. Qualified employees may defer their salary and the deferrals are matched up to 2% for March 31, 2010 and 3% for 2009 of eligible compensation by the Company. The plan covers substantially all full-time employees. Under the terms of the plan, participants may contribute up to the lower of $10,500 of their salary or the statutorily prescribed limit to the plan. Employees are eligible the first January after their hire date. The Company made matching contributions during the three months ended March 31, 2010 and 2009 of $10,956 and $13,970, respectively.

(19) Supplemental Disclosure of Cash Flow Information

Supplemental cash flow information is as follows:

	March 31,	
	2010	2009
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 109,022	$ 44,675
Income taxes	-	-
Non-cash investing and financing activities:		
Acquisition of property and equipment under capital lease	$ -	$ -
Acquisition of treasury stock using notes payable	$ -	$ -
Conversion of convertible notes payable into common stock	$ -	$ -

(20) Subsequent Events

In April and May 2010, the Company issued an additional $1,425,000 of convertible notes on the same terms as the $550,000 of convertible notes issued in December 2009. The Company also renegotiated the convertible note agreements issued in December 2009 to include additional warrants as incentives for entering into these agreements so that all note agreements issued have the same terms and incentives.

BACTERIN INTERNATIONAL, INC.
Balance Sheet
March 31, 2010

	Bacterin International, Inc.	K-Kitz, Inc.	Pro Forma Adjustments	Footnotes	Pro Forma Combined
Assets					
Current Assets					
Cash and cash equivalents	$ 280,103	$ 62,434	$ 5,697,403	a,b	$ 6,039,940
Accounts receivable (net)	1,558,944	5,571	(5,571)	a	1,558,944
Notes receivable	426,565	-	-		426,565
Notes receivable from stockholder	22,178	-	-		22,178
Inventories, net	5,556,378	29,316	(29,316)	a	5,556,378
Prepaid and other current assets	40,000	5,194	(5,194)	a	40,000
Total Current Assets	7,884,168	102,515	5,657,322		13,644,005
Property and Equipment, Net	3,136,498	-	-		3,136,498
Other Assets					
Intangible assets, net	557,627	-	-		557,627
Other assets	13,675	-	-		13,675
	$ 11,591,968	$ 102,515	$ 5,657,322		$ 17,351,805
Liabilities and Members' Equity					
Current Liabilities					
Accounts payable	$ 1,252,695	$ 13,033	$ (13,033)	a	$ 1,252,695
Warrant derivative liability	515,227	-	-		515,227
Accrued liabilities	571,750	-	(82,329)	a,b	489,421
Current deferred tax liability	-	1,834	(1,834)	a	-
Notes payable	740,615	-	-		740,615
Notes payable to stockholders	183,461	-	-		183,461
Current portion of capital lease obligations	69,584	-	-		69,584
Current portion of convertible notes payable	3,516,163	-	(1,666,163)	a,b	1,850,000
Current portion of long-term debt	1,193,591	-	-		1,193,591
Total Current Liabilities	8,043,086	14,867	(1,763,359)		6,294,594
					-
Long-term Liabilities					
Capital lease obligations, less current portion	17,474				17,474
Long-term debt, less current portion	333,548				333,548
Total Liabilities	8,394,108	14,867	(1,763,359)		6,645,616
Stockholders' Equity					
Common stock, $.00001 par value; 100,000,000 shares authorized; issued and outstanding XXX shares in 2009	565	6	69	a,b	640
Additional paid in capital	22,394,210	96,795	7,411,459	a,b	29,902,464
Treasury stock, 117,794 shares	(76,566)	-	-		(76,566)
Retained earnings	(19,120,349)	(9,153)	9,153	a	(19,120,349)
Total Stockholders' Equity	3,197,860	87,648	7,420,681		10,706,189
	$ 11,591,968	$ 102,515	$ 5,657,322		$ 17,351,805

a Proforma adjustment to remove all operating revenue, expenses, assets, liabilities and equity as the transaction assumings the full winding up of the K-Kitz, Inc. operations.

b Proforma adjustments for the completion of the $7,508,329 round of equity finanicing as part of the proposed stock offering and partial conversion of convertible notes payable.

The accompanying notes are an integral part of the financial statements.

BACTERIN INTERNATIONAL, INC.
Statement of Income
For the three months ended March 31, 2010

	Bacterin International, Inc.	K-Kitz, Inc.	Pro Forma Adjustments	Footnotes	Pro Forma Combined
Revenues					
Revenue	$ 2,707,124	$ 16,812	$ (16,812)	a	$ 2,707,124
Royalties and other	29,309	-	-		29,309
Total Revenue	2,736,433	16,812	(16,812)		2,736,433
Cost of revenue	604,622	9,657	(9,657)	a	604,622
Gross Profit	2,131,811	7,155	(7,155)		2,131,811
Operating Expenses					
Selling, general, and administrative	1,671,081	16,383	(16,383)	a	1,671,081
Compensation expense	1,483,871	-	-		1,483,871
Total Operating Expenses	3,154,952	16,383	(16,383)		3,154,952
Income from Operations	(1,023,141)	(9,228)	9,228		(1,023,141)
Other Income (Expense)					
Interest expense	(625,797)	-	-		(625,797)
Other	5,924	-	-		5,924
Total Other Income (Expense)	(619,873)	-	-		(619,873)
Net Income Before Benefit (Provision) for Income Taxes	(1,643,014)	(9,228)	9,228		(1,643,014)
Benefit (Provision) for Income Taxes					
Current	-	-	-		-
Deferred	-	-	-		-
Net Income	$ (1,643,014)	$ (9,228)	$ 9,228		$ (1,643,014)
EPS Basic for Net Income	$ (0.03)				XX
Weighted Average Shares Outstanding	56,461,755				XX

a Proforma adjustment to remove all operating revenue, expenses, assets, liabilities and equity as the transaction assumings the full winding up of the K-Kitz, Inc. operations.

The accompanying notes are an integral part of the financial statements.

BACTERIN INTERNATIONAL, INC.
Balance Sheet
December 31, 2009

	Bacterin International, Inc.	K-Kitz, Inc.	Pro Forma Adjustments	Footnotes	Pro Forma Combined
Assets					
Current Assets					
Cash and cash equivalents	$ 54,155	$ 46,012	$ 8,409,201	a,b	$ 8,509,368
Accounts receivable (net)	1,314,418	52,202	(52,202)	a	1,314,418
Related party accounts receivable	-	16,687	(16,687)	a	-
Notes receivable	270,565	-	-		270,565
Notes receivable from stockholder	-	-	-		-
Inventories, net	5,000,713	18,978	(18,978)	a	5,000,713
Prepaid and other current assets	30,000	3,894	(3,894)	a	30,000
Total Current Assets	6,669,851	137,773	8,317,440		15,125,064
Property and Equipment, Net	3,248,096	-	-		3,248,096
Other Assets					
Intangible assets, net	554,268	-	-		554,268
Other assets	13,675	-	-		13,675
	$ 10,485,890	$ 137,773	$ 8,317,440		$ 18,941,103
Liabilities and Members' Equity					
Current Liabilities					
Accounts payable	$ 1,403,950	$ 23,460	$ (23,460)	a	$ 1,403,950
Warrant derivative liability	$ 75,231	$ -	$ -		75,231
Related party accounts payable	-	15,603	(15,603)	a	-
Accrued liabilities	463,633	-	(82,329)	a,b	381,304
Current deferred tax liability	-	1,834	(1,834)	a	-
Notes payable	1,126,690	-	-		1,126,690
Notes payable to stockholders	183,461	-	-		183,461
Current portion of capital lease obligations	85,071	-	-		85,071
Current portion of convertible notes payable	820,787	-	1,029,213	a,b	1,850,000
Current portion of long-term debt	1,202,574	-	-		1,202,574
Total Current Liabilities	5,361,397	40,897	905,987		6,308,281
Long-term Liabilities					
Capital lease obligations, less current portion	27,074	-	-		27,074
Long-term debt, less current portion	412,545	-	-		412,545
Total Liabilities	5,801,016	40,897	905,987		6,747,900
					-
Stockholders' Equity					
Common stock, $.00001 par value; 100,000,000 shares authorized; issued and outstanding XXX shares in 2009	565	6	69	a,b	640
Additional paid in capital	22,238,210	96,795	7,411,459	a,b	29,746,464
Treasury stock	(76,566)	-	-		(76,566)
Retained earnings	(17,477,335)	75	(75)	a	(17,477,335)
Total Stockholders' Equity	4,684,874	96,876	7,411,453		12,193,203
	$ 10,485,890	$ 137,773	$ 8,317,440		$ 18,941,103

a Proforma adjustment to remove all operating revenue, expenses, assets, liabilities and equity as the transaction assumings the full winding up of the K-Kitz, Inc. operations.

b Proforma adjustments for the completion of the $7,508,329 round of equity finanicing as part of the proposed stock offering and partial conversion of convertible notes payable.

The accompanying notes are an integral part of the financial statements.

BACTERIN INTERNATIONAL, INC.
Statement of Income
For the Year Ended December 31, 2009

	Bacterin International, Inc.	K-Kitz, Inc.	Pro Forma Adjustments	Footnotes	Pro Forma Combined
Revenues					
Revenue	$ 7,101,357	$ 295,520	$ (295,520)	a	$ 7,101,357
Royalties and other	292,136	-	-		292,136
Total Revenue	7,393,493	295,520	(295,520)		7,393,493
Cost of sales	2,318,142	213,254	(213,254)	a	2,318,142
Gross Profit	5,075,351	82,266	(82,266)		5,075,351
Operating Expenses					
Selling, general, and administrative	4,161,941	72,301	(72,301)	a	4,161,941
Compensation expense	4,535,964	-	-		4,535,964
Total Operating Expenses	8,697,905	72,301	(72,301)		8,697,905
Income from Operations	(3,622,554)	9,965	(9,965)		(3,622,554)
Other Income (Expense)					
Interest expense	(513,934)	-	-		(513,934)
Other	10,746	-	-		10,746
Total Other Income (Expense)	(503,188)	-	-		(503,188)
Net Income Before Benefit (Provision) for Income Taxes	(4,125,742)	9,965	(9,965)		(4,125,742)
Benefit (Provision) for Income Taxes					
Current	-				-
Deferred	-	(1,834)	1,834	a	-
Net Income	$ (4,125,742)	$ 8,131	$ (8,131)		$ (4,125,742)
EPS Basic for Net Income	(.08)				XX
Weighted Average Shares Outstanding	52,911,010				XX

a Proforma adjustment to remove all operating revenue, expenses, assets, liabilities and equity as the transaction assumings the full winding up of the K-Kitz, Inc. operations.

The accompanying notes are an integral part of the financial statements.