

Private Offering of Shares of Series A Convertible Preferred Stock

Minimum Offering: 750,000 shares of Series A Convertible Preferred Stock
Maximum Offering: 4,000,000 shares of Series A Convertible Preferred Stock

Offering Price: \$2.00 per share
Minimum Subscription: \$100,000

The securities offered hereby have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and are being offered and sold only to accredited investors in reliance upon exemptions from the registration requirements of the Securities Act. The securities offered hereby have not been approved or disapproved by the Securities and Exchange Commission (the "SEC"), nor has the SEC passed upon the accuracy or adequacy of this Second Supplement, the Private Placement Memorandum dated October 31, 2006, the Supplement dated November 16, 2006 or the merits of this offering. These securities may not be offered for sale or resold or otherwise transferred unless they are registered under the applicable provisions of the Securities Act or are exempt from such registration.

An investment in the Series A Convertible Preferred Stock is speculative, involves a high degree of risk, and should be considered only by accredited investors who can bear the economic risks for an indefinite period and who can afford to sustain a total loss of their investment. See "Risk Factors."

Each recipient of this Second Supplement agrees that the information contained herein is confidential and is to be used solely for the purpose of determining whether to purchase the securities offered hereby. The contents of this Second Supplement are not to be disclosed to any third party other than advisors of the recipient.



The date of this Second Supplement is February 6, 2007.

About this Confidential Private Placement Memorandum Second Supplement

In this Second Supplement we are providing you with information regarding “The Progress of Our Business,” “Director, Officer and Key Employee Update” and “Proceedings Involving Officers and Directors” which add to, modify and update information contained our October 31, 2006 private placement memorandum and our November 16, 2006 supplement.

There have been no changes to the specific terms of the Offering. You should read both this second supplement, the private placement memorandum and the supplement together before assessing your investment in our securities. You should rely only on the information contained in this second supplement, the private placement memorandum and the supplement and you should not assume that the information contained in such documents is accurate as of any date other than the dates on the front covers of these documents.

While after conferring with legal counsel we believe that there is no legal requirement to provide the information in this Second Supplement, we have a policy of voluntarily disclosing information we believe would be of importance to our shareholders regardless of any legal requirement to do so.

In the event that any of the information contained in this Second Supplement causes you to reconsider your investment in the Preferred Shares and you wish to rescind your original investment and receive a prompt return of the principal amount of your investment, please contact Mary C. Murphy, GunnAllen Financial, Inc. at 603-606-1639 no later than 5:00 PM (EST) on February 13, 2007.

The Progress of Our Business

Our rapid expansion in distribution and active surgeons has resulted in continued growth in the number of surgical cases, and consequent sales, of TruFUSE.

We reached three key milestones in January 2007:

- Our 500th TruFUSE patient;
- Our 100th certified surgeon; and,
- Our 10th regional distributor.

We have achieved a volume, based upon the number of surgeries performed and certified surgeons, the two primary metrics of success in our industry, that we believe would exceed normal industry standard expectations for new products in such a short period of time.

This level of success does not come without challenges. Except for the number of patients, we did not plan to certify this level of surgeons or to add this many distributors until the end of the first quarter of 2007. Demand, however, has been such that our growth has been allowed to accelerate in the attempt to accommodate it. As a result our inventory of TruFUSE grafts has depleted to unsustainably low levels. Even though we have had a substantial number of boxes in process since early last month, processing takes time to ensure patient safety and, despite substantial advances in efficiency, we can barely release enough TruFUSE to satisfy current demand before new growth.

Further, we have not been able to add staff quickly enough and to train distributor representatives adequately; a condition that if not properly addressed could put our excellent surgical success record at risk. As a cautionary move, we have increased our projected failure rate to be certain that we are setting surgeon expectations properly (see “*TruFUSE Success Rates Reviewed and Updated*” below).

While it is often said that these types of problems are “good” ones to have, we believe that failing to act now by taking aggressive, affirmative steps to control our business could put our business at an unacceptable risk.

In response, Management has decided to modulate the company’s growth by delaying new distributor approvals to sell TruFUSE and supplying newly trained surgeons until the following conditions have been met:

1. All distributor representatives have received and passed all levels of our new clinical, product, surgical and TruFUSE sales technique training program, implemented by our Director of Professional Education
2. Production under quality control standards and instrument and graft variance specifications (which promote higher surgical success rates through tighter tolerances in less experienced hands) delivers sufficient inventory of both surgical instrument sets and TruFUSE is on hand and in process to sustain new, more aggressive growth projections; and,
3. Video, animated and collateral paper training aids and materials are complete and available including interactive online testing programs that will allow us the efficiencies to resume and safely sustain a more aggressive growth pattern.

We anticipate that we will be in a position to bring the next distributor active the beginning of March and several large regional distributors active in mid to late March.

While there can be no assurance that this will be the case, we believe that taking these steps will still allow us to achieve our projected sales levels for the first quarter of this year, and to continue to grow at an aggressive pace thereafter.

TruFUSE Success Rates Reviewed and Updated

A review of the first 500 cases has prompted us to increase our estimate of expected failures, defined as graft pullouts and pseudoarthrosis (a failure to heal), to +/-5% of cases with at least 50% of those patients non-symptomatic (having no reoccurrence of pain) postoperatively.

Current historical rates are less than 2% with approximately 50% of those patients non-symptomatic postoperatively (meaning complete or virtually complete elimination of pre-operative pain is maintained even though natural bone has not healed into the TruFUSE graft) and the remainder only partially symptomatic. Some surgeons have expressed concern that postoperative non-compliance by patients has caused some of the failures. To be compliant, a patient is directed to wear a lumbar brace for 6 to 8 weeks postoperatively to allow the fusion process to begin.

To put these projected failure rates into perspective, two more invasive fusion methods that TruFUSE is used to prevent, XSTOP (a means of restricting spinal motion) and pedicle or facet screw fixation, have between a 10% and 30% failure rate and a 5% to 8% failure rate respectively within 30 days post-operatively, with virtually all patients becoming symptomatic (returning to or having an increase in post-operative pain) and requiring another surgery to correct the failure. In over 500 patients, we have recently learned that only one surgeon has elected to revise a single TruFUSE case by doing what he would have done in the first place.

The primary cause prompting this increase in our projections is a large number of surgeons new to the technique. Like anyone, surgeons improve their success rates with experience. With an anticipated continuing growth rate, we believe that our present clinical success rate is not reasonably sustainable and that surgeon expectations should be properly realigned.

Director , Officer and Key Employee Update

We made three important changes to our Board of Directors in January:

- **Peter Sontag** moved from Vice Chairman, Director and Chairman of the Nominating and Compensation Committee to Chairman of the Board.
- **David A. Petersen, M.D.** moved from Chairman to Vice Chairman.
- **H. Jay Hill** joined our Board as an outside director.
- **Gary Baker** was elected Chairman of the Nominating and Compensation Committee.

Mr. Hill was nominated by GunnAllen Financial pursuant to the terms of the Offering, and was unanimously confirmed by our Board of Directors on his merits. Over his distinguished

career, Mr. Hill has served on over two dozen boards and has been employed in senior capacities at IBM and Paradyne in addition to smaller companies, including distressed companies, in recent years. He brings a wealth of knowledge, know-how and perspective from his experience in large and small companies and is a valued addition to our board.

We have also recently hired two key personnel:

Frank Scalfaro, Chief Financial Officer

Mr. Scalfaro began his career as an auditor with the international public accounting firm of PricewaterhouseCoopers. After almost five years with PwC, Frank spent the next four years working for local and regional accounting firms. He founded his own public accounting firm specializing in financial audits and consulting for both private and public companies in 2004, quickly growing to revenues in excess of \$1 million annually. Mr. Scalfaro has significant expertise in the rules and regulations of the Securities and Exchange Commission including, but not limited to, Sarbanes-Oxley.

He received a Bachelor of Science Degree in Finance and Accounting as well as a Master Degree in Accounting from the University of South Florida. Frank is a licensed Certified Public Accountant in the State of Florida and a member of the American Institute of Certified Public Accountants and Florida Institute of Certified Public Accountants.

Brad A. Settel, Director of Professional Education

Management believes that it is critically important to manage its rapid growth rate without compromising its excellent record of clinical outcomes and safety with its TruFUSE product. We believe that the key to our continued success is properly and thoroughly training our surgeons, distributors and product representatives, and that our present growth rate makes this impossible without an organized effort under strong and experienced leadership.

Mr. Settel joined us on February 5, 2007 to organize and manage this critical function. We believe he is extremely well qualified, having a 24 year career with increasing levels of responsibility with Johnson and Johnson and Boston Scientific. His last position with J&J was as Field Marketing Manager for the southeastern United States in the Ethicon division. He was recruited by Boston Scientific in March of 2006 as their Field Marketing Manager for the Eastern United States in their peripheral vascular division. Both positions included a primary responsibility for sales, marketing and professional education.

Proceedings Involving Officers and Directors

As we previously disclosed in the Confidential Private Placement Memorandum, our President, CEO and Director James Doulgeris had in the past been retained as a work-out specialist by a number of distressed healthcare companies unrelated to us. These engagements took place over a period of fourteen years and prior to his involvement with ODC. As is the nature of the work-out business, most of the companies were already in bankruptcy when Mr.

Doulgeris was retained, or subsequently filed for bankruptcy shortly thereafter. For the purpose of providing additional information, we note that some time ago Mr. Doulgeris voluntarily made our Board of Directors aware of one specific litigation matter involving him even though such litigation was unrelated to ODC. When our Board originally reviewed the matter and had received full disclosure of the facts and circumstances it believed to be relevant, after careful review and consideration, the independent members of the Board unanimously expressed the belief that such matter was not in any way a negative indication of Mr. Doulgeris' integrity or ability to serve as our President and CEO. The Board further unequivocally concluded that Mr. Doulgeris was fit to continue to serve as President and CEO and that it would be in our best interests for him to do so. Our Board has since reviewed the matter again and has unanimously re-affirmed its original conclusions.

The specific lawsuit involved a civil complaint for damages filed against nine individuals, including Mr. Doulgeris, the hospital's board of directors and other executive officers, by David K. Gottlieb, in his capacity as Chapter 7 Trustee for International Philanthropic Hospital Foundation *fdba* Granada Hills Community Hospital (United States District Court, Central District of California, Case No. CV04-7318GPS(SSx)). Pursuant to the approval of the bankruptcy court, Mr. Doulgeris had served as interim president and chief executive officer of the hospital while it was in Chapter 11 bankruptcy. The complaint alleges breach of fiduciary duty of care and loyalty and gross negligence by the defendants during the bankruptcy and seeks to recover unspecified damages. The case is currently still pending and there is a \$10 million directors and officers liability policy involved. Mr. Doulgeris has strongly denied the allegations of the complaint, believes that the lawsuit is without merit and stated that he intends to continue to vigorously defend himself along with the other defendants. Mr. Doulgeris has indicated that he does not believe that the lawsuit will distract him from his current duties and has stated that this is the only time he was ever sued in his 35 year business career. We also believe that since the case is totally unrelated to our company, such litigation proceeding would not adversely affect our financial condition regardless of the eventual outcome.