

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-34951

XTANT MEDICAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-5313323 (I.R.S. Employer Identification No.)
664 Cruiser Lane Belgrade, Montana (Address of principal executive offices)	59714 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.000001 per share	XTNT	NYSE American LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock, \$0.000001 par value, of registrant outstanding at August 7, 2019: 13,161,762.

XTANT MEDICAL HOLDINGS, INC.
FORM 10-Q
June 30, 2019

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As used in this report, references to "Xtant," the "Company," "we," "our," or "us," unless the context otherwise requires, refer to Xtant Medical Holdings, Inc., and its wholly owned subsidiaries, Xtant Medical, Inc., Bacterin International, Inc., and X-spine Systems, Inc., all of which are consolidated on Xtant's condensed consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of the applicable securities laws. Our forward-looking statements include, but are not limited to, statements regarding our “expectations,” “hopes,” “beliefs,” “intentions,” or “strategies” regarding the future. In addition, any statements that refer to projections, forecasts, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” and “would,” as well as similar expressions, may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward looking. Forward-looking statements in this Form 10-Q may include, for example, statements about:

- our ability to comply with the covenants in our second amended and restated credit agreement;
- our ability to maintain sufficient liquidity to fund our operations;
- our ability to obtain financing on reasonable terms;
- our ability to increase or maintain revenue;
- the ability of our sales force to achieve expected results;
- our ability to remain competitive;
- government regulations;
- our ability to innovate and develop new products;
- our ability to retain and recruit independent sales agents and the impact of the termination of an advisory agreement with an entity that provided services to some of our customers;
- our ability to obtain donor cadavers for our products;
- our ability to engage and retain qualified technical personnel and members of our management team;
- the availability of our facilities;
- government and third-party coverage and reimbursement for our products;
- our ability to obtain and maintain regulatory approvals;
- our ability to successfully integrate future business combinations or acquisitions;
- our ability to use our net operating loss carry-forwards to offset future taxable income;
- our ability to deduct all or a portion of the interest payments on the notes for U.S. federal income tax purposes;
- our ability to service our debt;
- product liability claims and other litigation to which we may be subjected;
- product recalls and defects, including the December 2018 recall of our Calix Lumbar Spine Implant System;
- timing and results of clinical studies;
- our ability to obtain and protect our intellectual property and proprietary rights;
- infringement and ownership of intellectual property;
- our ability to remain accredited with the American Association of Tissue Banks; and
- our ability to maintain our stock listing on the NYSE American Exchange.

The forward-looking statements contained in this Form 10-Q are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties, or assumptions, many of which are beyond our control, which may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described in the “*Risk Factors*” section of our Annual Report on Form 10-K for the year ended December 31, 2018.

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities laws.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XTANT MEDICAL HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(In thousands, except number of shares and par value)

	<u>As of</u> <u>June 30, 2019</u> <u>(Unaudited)</u>	<u>As of</u> <u>December 31, 2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,318	\$ 6,797
Trade accounts receivable, net of allowance for doubtful accounts of \$1,223 and \$2,140, respectively	8,565	9,990
Inventories, net	15,828	17,301
Prepaid and other current assets	592	589
Total current assets	32,303	34,677
Property and equipment, net	5,600	7,174
Right-of-use asset, net	2,296	—
Goodwill	3,205	3,205
Intangible assets, net	544	573
Other assets	549	793
Total Assets	\$ 44,497	\$ 46,422
LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 3,194	\$ 6,465
Accrued liabilities	5,867	5,150
Warrant derivative liability	21	10
Current portion of lease liability	511	—
Current portion of financing lease obligations	337	426
Total current liabilities	9,930	12,051
Long-term Liabilities:		
Lease liability, less current portion	1,796	—
Financing lease obligation, less current portion	16	204
Long-term debt, less issuance costs	73,831	77,939
Total Liabilities	85,573	90,194
Commitments and Contingencies (note 10)		
Stockholders' Equity (Deficit):		
Preferred stock, \$0.000001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.000001 par value; 50,000,000 shares authorized; 13,161,762 shares issued and outstanding as of June 30, 2019 and 13,172,179 shares issued and outstanding as of December 31, 2018	—	—
Additional paid-in capital	178,707	171,273
Accumulated deficit	(219,783)	(215,045)
Total Stockholders' Equity (Deficit)	(41,076)	(43,772)
Total Liabilities & Stockholders' Equity (Deficit)	\$ 44,497	\$ 46,422

See notes to unaudited condensed consolidated financial statements.

XTANT MEDICAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands, except number of shares and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue				
Orthopedic product sales	\$ 15,197	\$ 18,653	\$ 31,883	\$ 36,483
Other revenue	74	88	114	191
Total Revenue	<u>15,271</u>	<u>18,741</u>	<u>31,997</u>	<u>36,674</u>
Cost of sales				
Gross Profit	<u>5,365</u>	<u>6,266</u>	<u>11,278</u>	<u>11,968</u>
Operating Expenses				
General and administrative	4,041	3,498	8,359	6,885
Sales and marketing	6,072	8,545	12,814	16,894
Research and development	210	418	472	832
Depreciation and amortization	146	1,041	305	2,045
Restructuring expenses	—	1,234	—	1,968
Total Operating Expenses	<u>10,469</u>	<u>14,736</u>	<u>21,950</u>	<u>28,624</u>
Loss from Operations	<u>(563)</u>	<u>(2,261)</u>	<u>(1,231)</u>	<u>(3,918)</u>
Other (Expense) Income				
Interest expense	(1,301)	(2,820)	(3,319)	(6,366)
Change in warrant derivative liability	4	79	(11)	41
Other (expense) income	(57)	—	(132)	(12)
Total Other (Expense)	<u>(1,354)</u>	<u>(2,741)</u>	<u>(3,462)</u>	<u>(6,337)</u>
Net Loss Before Provision for Income Taxes	<u>(1,917)</u>	<u>(5,002)</u>	<u>(4,693)</u>	<u>(10,255)</u>
Provision for income taxes	<u>(22)</u>	<u>—</u>	<u>(45)</u>	<u>—</u>
Net Loss	<u>\$ (1,939)</u>	<u>\$ (5,002)</u>	<u>\$ (4,738)</u>	<u>\$ (10,255)</u>
Net loss per share:				
Basic	\$ (0.15)	\$ (0.38)	\$ (0.36)	\$ (1.00)
Dilutive	\$ (0.15)	\$ (0.38)	\$ (0.36)	\$ (1.00)
Shares used in the computation:				
Basic	13,161,762	13,085,668	13,166,136	10,299,090
Dilutive	13,161,762	13,085,668	13,166,136	10,299,090

See notes to unaudited condensed consolidated financial statements.

XTANT MEDICAL HOLDINGS, INC.
Condensed Consolidated Statements of Equity
(Unaudited, in thousands, except number of shares)

STOCKHOLDERS' EQUITY – THREE MONTHS ENDED JUNE 30

	Common Stock		Additional Paid-In-Capital	Retained Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at March 31, 2018	13,077,468	\$ —	\$ 165,808	\$ (150,199)	\$ 15,609
Stock-based compensation	—	—	—	—	—
Issuance of common stock	67,837	—	1	—	1
Net loss	—	—	—	(5,002)	(5,002)
Balance at June 30, 2018	<u>13,145,305</u>	<u>\$ —</u>	<u>\$ 165,809</u>	<u>\$ (155,201)</u>	<u>\$ 10,608</u>
Balance at March 31, 2019	13,161,762	\$ —	\$ 178,668	\$ (217,844)	\$ (39,176)
Stock-based compensation	—	—	39	—	39
Net loss	—	—	—	(1,939)	(1,939)
Balance at June 30, 2019	<u>13,161,762</u>	<u>\$ —</u>	<u>\$ 178,707</u>	<u>\$ (219,783)</u>	<u>\$ (41,076)</u>

STOCKHOLDERS' EQUITY – SIX MONTHS ENDED JUNE 30

	Common Stock		Additional Paid-In-Capital	Retained Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at December 31, 2017	1,514,899	\$ —	\$ 86,247	\$ (144,946)	\$ (58,699)
Stock-based compensation	—	—	363	—	363
Issuance of common stock	11,630,406	—	79,199	—	79,199
Net loss	—	—	—	(10,255)	(10,255)
Balance at June 30, 2018	<u>13,145,305</u>	<u>\$ —</u>	<u>\$ 165,809</u>	<u>\$ (155,201)</u>	<u>\$ 10,608</u>
Balance at December 31, 2018	13,172,179	\$ —	\$ 171,273	\$ (215,045)	\$ (43,772)
Stock-based compensation	—	—	161	—	161
Forfeiture of restricted stock	(10,417)	—	—	—	—
Debt extinguishment	—	—	7,264	—	7,264
Issuance of warrant	—	—	9	—	9
Net loss	—	—	—	(4,738)	(4,738)
Balance at June 30, 2019	<u>13,161,762</u>	<u>\$ —</u>	<u>\$ 178,707</u>	<u>\$ (219,783)</u>	<u>\$ (41,076)</u>

See notes to unaudited condensed consolidated financial statements.

XTANT MEDICAL HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Six Months Ended	
	June 30,	
	2019	2018
Operating activities:		
Net loss	\$ (4,738)	\$ (10,255)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,559	3,227
Loss on disposal of fixed assets	92	205
Non-cash interest	3,272	6,205
Non-cash rent	11	-
Non-cash stock option expense/change in derivative warrant liability	172	364
Provision for losses on accounts receivable and inventory	750	83
Changes in operating assets and liabilities:		
Accounts receivable	1,403	2,152
Inventories	955	(388)
Prepaid and other assets	242	1,120
Accounts payable	(3,481)	(1,948)
Accrued liabilities	717	(421)
Net cash provided by operating activities	954	344
Investing activities:		
Purchases of property and equipment and intangible assets	(211)	(288)
Proceeds from sale of fixed assets	163	—
Net cash used in investing activities	(48)	(288)
Financing activities:		
Payments on financing leases	(277)	(167)
Costs associated with Second Amended and Restated Credit Agreement	(108)	—
Costs associated with private placement and convertible debt conversion/exchange	—	(3,507)
Proceeds from equity private placement	—	6,810
Proceeds from issuance of stock	—	1
Net cash (used in) provided by financing activities	(385)	3,137
Net change in cash and cash equivalents	521	3,193
Cash and cash equivalents at beginning of period	6,797	2,856
Cash and cash equivalents at end of period	<u>\$ 7,318</u>	<u>\$ 6,049</u>

See notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

(1) Business Description, Basis of Presentation and Summary of Significant Accounting Policies

Business Description and Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Xtant Medical Holdings, Inc. (“Xtant”), a Delaware corporation, and its wholly owned subsidiaries, Xtant Medical, Inc. (“Xtant Medical”), a Delaware corporation, Bacterin International, Inc. (“Bacterin”), a Nevada corporation, and X-spine Systems, Inc. (“X-spine”), an Ohio corporation (Xtant, Xtant Medical, Bacterin, and X-spine are jointly referred to herein as the “Company” or sometimes “we”, “our,” or “us”). All intercompany balances and transactions have been eliminated in consolidation.

Xtant is a global medical technology company focused on the design, development, and commercialization of a comprehensive portfolio of orthobiologics and spinal implant systems to facilitate spinal fusion in complex spine, deformity, and degenerative procedures.

The accompanying condensed consolidated financial statements of Xtant for the three and six months ended June 30, 2019 and 2018 are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America. They do not include all disclosures required by generally accepted accounting principles for annual consolidated financial statements, but in the opinion of management, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation. Certain prior year amounts have been reclassified to conform with current year presentation.

Interim results are not necessarily indicative of results that may be achieved in the future for the full year ending December 31, 2019.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, which are included in Xtant’s Annual Report on Form 10-K for the year ended December 31, 2018. The accounting policies set forth in those annual consolidated financial statements are the same as the accounting policies utilized in the preparation of these condensed consolidated financial statements, except as modified for appropriate interim consolidated financial statement presentation.

As described in more detail below, effective as of February 13, 2018, the Company effected a 1-for-12 reverse split of its common stock (the “Reverse Stock Split”). The Reverse Stock Split is reflected in the share amounts in all periods presented in this report.

During the preparation of this Quarterly Report on Form 10-Q, the Company identified an immaterial misstatement on the condensed consolidated balance sheet as of June 30, 2018. The Accumulated deficit line item was overstated by \$320 thousand and should have been reported as \$155.2 million instead of \$155.5 million. The Total stockholders’ equity (deficit) and Total liabilities and stockholders’ equity (deficit) line items in the condensed consolidated balance sheet as of June 30, 2018 were correct. In addition, the Accumulated deficit line item in subsequent Quarterly Reports on Form 10-Q and in the Annual Report on Form 10-K for the year ended December 31, 2018 were correct. Management evaluated the effect of this misstatement on the prior period and concluded that the prior period was not materially misstated. Accordingly, the misstatement has been corrected in the second quarter of 2019 and in this Quarterly Report on Form 10-Q. Specifically, the June 30, 2018 balance under the Retained deficit column in the condensed consolidated statements of equity for the three and six months ended June 30, 2018 reflects a retained deficit of \$155.2 million instead of \$155.5 million.

Corporate Restructuring

Restructuring Agreement

On January 11, 2018, we entered into a Restructuring and Exchange Agreement (the “Restructuring Agreement”) with ROS Acquisition Offshore LP, OrbiMed Royalty Opportunities II, LP (collectively referred to herein as the “Investors”), Bruce Fund, Inc., Park West Partners International, Limited (“PWPI”), Park West Investors Master Fund, Limited (“PWIMF”), and Telemetry Securities, L.L.C., collectively referred to herein as the “Holders.”

Pursuant to the Restructuring Agreement, and following the execution of the Sixth Amendment to the 2017 Notes, described in the “Debt” and “Equity” sections below, on January 17, 2018, the Investors converted 6.00% convertible senior unsecured notes due 2021, plus accrued and unpaid interest, at the \$9.11 per share conversion rate originally provided thereunder (the “2017 Notes”), into 189,645 shares of our common stock.

On February 14, 2018, after giving effect to the Reverse Stock Split (described below), the \$70.3 million aggregate principal amount of our then outstanding 6.00% convertible senior unsecured notes due 2021 held by the Holders (the “Remaining Notes”), plus accrued and unpaid interest, were exchanged for newly-issued shares of our common stock at an exchange rate of 138.8889 shares per \$1,000 principal amount of the Remaining Notes, for an exchange price of \$7.20 per share (the “Notes Exchange”). This resulted in the issuance of 10,401,309 shares of our common stock to the Holders and the Investors acquiring an approximately 70% controlling interest in our outstanding shares of common stock. Upon the completion of the Notes Exchange, all outstanding obligations under our convertible senior secured notes were satisfied in full, and the Indentures governing such notes were discharged.

Pursuant to the terms of the Restructuring Agreement, we commenced a rights offering to allow our stockholders as of a record date of April 27, 2018 to purchase up to an aggregate of 1,137,515 shares of our common stock at a subscription price of \$7.20 per share. The rights offering expired on June 18, 2018. We issued 129 shares of common stock in the rights offering and received \$0.9 thousand gross proceeds.

Amended and Restated Certificate of Incorporation

On February 13, 2018, following a special meeting of our stockholders, we filed with the Secretary of State of the State of Delaware a Certificate of Amendment to our Charter (the “Certificate Amendment”). The Certificate Amendment amended and restated our Charter (the “Charter”) to, among other things:

- effect the Reverse Stock Split;
- after giving effect to the Reverse Stock Split, decrease the number of authorized shares of common stock available for issuance from 95,000,000 to 50,000,000 and increase the number of authorized shares of preferred stock available for issuance from 5,000,000 to 10,000,000;
- authorize the Board of Directors (“Board”) to increase or decrease the number of shares of any series of our capital stock, provided that such increase or decrease does not exceed the number of authorized shares or represent less than the number of shares then outstanding;
- authorize the Board to issue new series of preferred stock without approval of the holders of common stock or other series of preferred stock, with such powers, preferences, and rights as may be determined by the Board;
- authorize a majority of the Board to fix the number of our directors;
- indemnify the members of the Board to the fullest extent permitted by law;
- remove the classification of the Board to require all directors to be elected annually;
- provide that special meetings of our stockholders may only be called by the Board, the chairman of the Board, or our chief executive officer;
- provide that no stockholder will be permitted cumulative voting at any election of directors;
- elect not to be governed by Section 203 of the Delaware General Corporation Law (the “DGCL”);
- elect the Court of Chancery of the State of Delaware to be the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of a fiduciary duty owed by any of our directors, officers, or other employees, any action under the DGCL, our Charter, or bylaws, or any actions governed by the internal affairs doctrine; and
- require the vote of at least two-thirds of the voting power of the then outstanding shares of our capital stock to amend or repeal certain provisions of our Charter.

The Reverse Stock Split became effective as of 5:00 p.m. Eastern Time on February 13, 2018, and our common stock began trading on a split-adjusted basis when the market opened on February 14, 2018. Upon the effectiveness of the Reverse Stock Split, every 12 shares of our issued and outstanding common stock automatically converted into one share of common stock, without any change in the par value per share. In addition, a proportionate adjustment was made to the per share exercise price and the number of shares issuable upon the exercise of all of our outstanding stock options and convertible securities to purchase shares of common stock and the number of shares underlying restricted stock awards and reserved for issuance pursuant to our equity incentive compensation plan. Any fraction of a share of common stock that would otherwise have resulted from the Reverse Stock Split was rounded down to the nearest whole share. All share and per share amounts have been retroactively restated to reflect the Reverse Stock Split.

Private Placement SPA

On February 14, 2018, we entered into a Securities Purchase Agreement (the “Private Placement SPA”) with the Investors pursuant to which the Investors purchased from us an aggregate of 945,819 shares of our common stock at a price of \$7.20 per share for aggregate proceeds of \$6.8 million.

Investor Rights Agreement

Effective February 14, 2018, we entered into an Investor Rights Agreement (the “Investor Rights Agreement”) with the Holders. Under the Investor Rights Agreement, the Investors are permitted to nominate a majority of our directors and designate the chairperson of the Board at subsequent annual meetings, as long as the Investors maintain an ownership threshold in the Company of at least 40% of the then outstanding common stock (the “Ownership Threshold”). If the Investors are unable to maintain the Ownership Threshold, the Investor Rights Agreement contemplates a reduction of nomination rights commensurate with their ownership interests.

For so long as the Ownership Threshold is met, we must obtain the approval of the Investors to proceed with the following actions: (i) issue new securities; (ii) incur over \$0.25 million of debt in a fiscal year; (iii) sell or transfer over \$0.25 million of our assets or businesses or our subsidiaries in a fiscal year; (iv) acquire over \$0.25 million of assets or properties in a fiscal year; (v) make capital expenditures over \$0.125 million individually or \$1.5 million in the aggregate during a fiscal year; (vi) approve our annual budget; (vii) hire or terminate our chief executive officer; (viii) appoint or remove the chairperson of the Board; and (ix) make loans to, make investments in, or purchase, or permit any subsidiary to purchase, any stock or other securities in another entity in excess of \$0.25 million in a fiscal year. As long as the Ownership Threshold is met, we may not increase the size of the Board beyond seven directors without the approval of a majority of the directors nominated by the Investors.

The Investor Rights Agreement grants the Holders the right to purchase from us a pro rata amount of any new securities that we may propose to issue and sell. The Investor Rights Agreement may be terminated (a) upon the mutual written agreement of all the parties, (b) upon written notice of the Company or an Investor, if such Investor’s ownership percentage of our then outstanding common stock is less than 10%, or (c) upon written notice by the Investors. PWPI and PWIMF’s right to purchase from us a pro rata amount of any new securities will also terminate at such time as their aggregate ownership percentage of our then outstanding common stock is less than 8.5%.

Registration Rights Agreement

Effective February 14, 2018, we entered into a Registration Rights Agreement (the “Registration Rights Agreement”) with the Holders. The Registration Rights Agreement requires us to, among other things, file with the U.S. Securities and Exchange Commission (“SEC”) a shelf registration statement within 90 days of the date of the Registration Rights Agreement covering the resale, from time to time, of our common stock issued. The registration statement became effective on June 4, 2018.

Second Amended and Restated Bylaws

On February 14, 2018, we amended and restated our current bylaws by adopting the Second Amended and Restated Bylaws of the Company (the "Amended Bylaws"). The Amended Bylaws amended our existing bylaws to, among other things:

- provide for annual and special meetings of stockholders to be held through remote communications;
- provide for the election of any directors not elected at an annual meeting of stockholders to be elected at a special meeting of stockholders;
- declassify the Board into one group of directors that will hold office until the subsequent annual meeting of stockholders and until the election and qualification of such directors' respective successors;
- provide for the filling of a new directorship or director vacancy by the affirmative vote of the holders of a majority of the voting power of our shares of stock;
- allow for a majority of the Board present to adjourn a Board meeting if a quorum is not met;
- unless otherwise restricted in the Amended Bylaws or our Charter, provide the Board with the authority to fix the compensation of directors, including, without limitation, compensation for services as members of Board committees;
- allow us to enter into an agreement with a stockholder to restrict the transfer of shares held by such stockholder in any manner not prohibited by the DGCL; and
- allow the Board to declare dividends on our capital stock, subject to any provisions of our Charter and applicable law.

Concentrations and Credit Risk

The Company's accounts receivable are due from a variety of health care organizations and distributors throughout the world. No single customer accounted for more than 10% of revenue or accounts receivable for the comparable periods. The Company provides for uncollectible amounts when specific credit issues arise. Management believes that all significant credit risks have been identified at June 30, 2019.

Use of Estimates

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the period. Significant estimates include the carrying amount of property and equipment, goodwill and intangible assets and liabilities, valuation allowances for trade receivables, inventory and deferred income tax assets and liabilities, valuation of the warrant derivative liability, current and long-term financing lease obligations and corresponding right-of-use asset, and estimates for the fair value of long-term debt, stock options, grants, and other equity awards upon which the Company determines stock-based compensation expense. Actual results could differ from those estimates.

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. Management reviewed the assumptions of intangible assets as of June 30, 2019 and determined that no impairment of the carrying value of the long-lived assets existed during the second quarter of 2019.

Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have indefinite useful lives are not amortized. Instead, they are tested for impairment at least annually, and whenever events or circumstances indicate, the carrying amount of the asset may not be recoverable. The Company conducts its impairment test on an annual basis and will review the analysis assumptions on a quarterly basis. We test goodwill for impairment at the reporting unit level, which is an operating segment, or one level below an operating segment, referred to as a component. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component.

Revenue Recognition

The Company adopted the provisions of Accounting Standards Update (“ASU”) No. 2014-09, *Topic 606, Revenue from Contracts with Customers*, effective January 1, 2018 (“ASC 606”). This new accounting standard outlines a single, comprehensive model used in accounting for revenue arising from contracts with customers. This standard supersedes existing revenue recognition requirements and eliminates most industry specific guidance from U.S. generally accepted accounting principles (“GAAP”). The core principle of the new accounting standard is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Disaggregation of Revenue

The Company operates in one reportable segment with our net revenue derived primarily from the sale of orthobiologics and spinal implant products across North America, Europe, Asia Pacific, and Latin America. Sales are reported net of returns. No rebates, group purchasing organization fees, or other customer allowances are present and so are not relevant to net revenue determination. The following table presents revenues from these product lines for the three and six months ended June 30, 2019 and 2018 (in thousands):

	Three Months Ended June 30, 2019	Percentage of Total Revenue	Three Months Ended June 30, 2018	Percentage of Total Revenue
Orthobiologics	\$ 11,020	72%	\$ 12,713	68%
Spinal implant	\$ 4,177	27%	\$ 5,940	32%
Other revenue	\$ 74	1%	\$ 88	0%
Total revenue	<u>\$ 15,271</u>	<u>100%</u>	<u>\$ 18,741</u>	<u>100%</u>

	Six Months Ended June 30, 2019	Percentage of Total Revenue	Six Months Ended June 30, 2018	Percentage of Total Revenue
Orthobiologics	\$ 23,020	72%	\$ 24,818	68%
Spinal implant	\$ 8,863	27%	\$ 11,665	31%
Other revenue	\$ 114	1%	\$ 191	1%
Total revenue	<u>\$ 31,997</u>	<u>100%</u>	<u>\$ 36,674</u>	<u>100%</u>

Performance Obligations

The Company’s contracts do not include a right of acceptance or a right to cancel. Therefore, our process for recognizing revenue does not require an evaluation of whether acceptance is received or a right to cancel has expired. Further, the Company does not incur upfront costs or exclusivity fees in conjunction with entering into a customer contract. The Company’s customer contracts do not provide for percentage of completion performance measures or contingent consideration.

In the normal course of business, the Company accepts returns of products that have not been implanted. Product returns are not material to the Company’s consolidated statements of operations. The Company accounts for shipping and handling activities as a fulfillment cost rather than a separate performance obligation. The Company’s policy is to record revenue net of any applicable sales, use, or excise taxes. Payment terms are generally net 30 days from invoice date, and some customers are offered discounts for early pay.

Contract Assets and Liabilities

The Company does not have deferred or unearned revenue arrangements with its customers that would give rise to contract liabilities. The Company recognizes sales commissions as incurred because the amortization period is less than one year. Additionally, the Company does not recognize unbilled receivables or progress payments to be billed that would result in a contract asset. All pricing and agreements are completed based on the contracted individual unit price; no other methods of determining price are allowed within the Company's sales agreements. Therefore, no contract assets or contract liabilities are recorded in our condensed consolidated balance sheets as of June 30, 2019 and 2018.

Research and Development

Research and development costs, which are principally related to internal costs for the development of new products, are expensed as incurred.

Net Loss Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Diluted net income (loss) per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive shares of common stock outstanding during the period, which include the assumed exercise of stock options and warrants using the treasury stock method. Diluted net loss per share was the same as basic net loss per share for the six months ended June 30, 2019 and 2018, as shares issuable upon the exercise of stock options and warrants were anti-dilutive as a result of the net losses incurred for those periods. Dilutive earnings per share are not reported, as the effects of including 3,135,973 and 558,161 outstanding stock options, restricted stock units and warrants for the six months ended June 30, 2019 and 2018, respectively, are anti-dilutive.

Fair Value of Financial Instruments

The carrying values of financial instruments, including trade accounts receivable, accounts payable, accrued liabilities, and long-term debt, approximate their fair values based on terms and related interest rates.

The Company follows a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. During the six months ended June 30, 2019 and 2018, there were no reclassifications in financial assets or liabilities between Level 1, 2, or 3 categories.

The following table sets forth by level, within the fair value hierarchy, our liabilities that are measured at fair value on a recurring basis.

Warrant derivative liability (in thousands):

	<u>As of June 30, 2019</u>	<u>As of December 31, 2018</u>
Level 1	—	—
Level 2	—	—
Level 3	\$ 21	\$ 10

The valuation technique used to measure fair value of the warrant liability is based on a lattice valuation model and significant assumptions and inputs determined by us. See Note 9, “Warrants,” below.

Level 3 Changes

The following is a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2019:

Warrant derivative liability (in thousands):

Balance at January 1, 2019	\$ 10
Loss recognized in earnings	11
Balance at June 30, 2019	<u>\$ 21</u>

During the six months ended June 30, 2019, the Company did not change any of the valuation techniques used to measure its liabilities at fair value.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, *Financial Instruments—Credit losses: Measurement of Credit Losses on Financial Instruments*, which amends certain provisions of ASC 326, *Financial Instruments—Credit Loss*. The ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held to maturity debt securities, loans, and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*. The amendments in the update provide an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. The effective date and transition methodology for the amendment have not changed. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual periods, and will be applied as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period for which the guidance is effective. We currently do not expect that the adoption of these provisions will have a material effect on our consolidated financial position, results of operations, or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*, to simplify the accounting for goodwill impairment. The update removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The ASU is effective for annual reporting periods beginning after December 15, 2019, but early adoption is permitted. We are currently evaluating this update to determine the full impact of its adoption but do not expect this accounting standards update to have a material impact on our consolidated financial position, results of operations, or cash flows.

(2) Inventories, Net

Inventories consist of the following (in thousands):

	June 30, 2019	December 31, 2018
Raw materials	\$ 3,465	\$ 3,519
Work in process	1,480	949
Finished goods	23,534	25,235
Gross inventories	28,479	29,703
Reserve for obsolescence	(12,651)	(12,402)
Total inventories, net	<u>\$ 15,828</u>	<u>\$ 17,301</u>

The Company provides implants and biologic inventory on consignment through its various sales channels to logistically place the inventory near the anticipated surgical location. Consigned inventory was approximately \$9.2 million and \$8.8 million at June 30, 2019 and December 31, 2018, respectively.

(3) Property and Equipment, Net

Property and equipment, net are as follows (in thousands):

	June 30, 2019	December 31, 2018
Equipment	\$ 4,082	\$ 4,145
Computer equipment	455	481
Computer software	570	570
Furniture and fixtures	99	164
Leasehold improvements	3,955	3,941
Vehicles	10	10
Surgical instruments	10,794	10,772
Total cost	19,965	20,083
Less: accumulated depreciation	(14,365)	(12,909)
Property and equipment, net	<u>\$ 5,600</u>	<u>\$ 7,174</u>

The Company deploys certain surgical instruments through its various sales channels for use with purchased implants during surgical procedures. The instruments are classified as non-current assets within property and equipment and depreciated using the straight-line method over a five-year useful life. The net book value of consigned surgical instruments was approximately \$4.9 million and \$4.4 million at June 30, 2019 and December 31, 2018, respectively. Instruments are recorded at cost and are carried at net book value (cost less accumulated depreciation).

Depreciation expense related to property and equipment, including property under capital lease, for the first six months of 2019 and 2018 was \$1.5 million and \$1.6 million, respectively.

The Company leases certain equipment under capital leases. For financial reporting purposes, minimum lease payments relating to the assets have been capitalized. As of June 30, 2019, the Company has recorded \$1.6 million gross assets in Equipment and \$1.0 million of accumulated depreciation.

(4) Goodwill and Intangible Assets

Goodwill represents the excess of costs over fair value of assets on businesses acquired associated with the acquisition of X-spine.

During the fourth quarter of 2018, several developments in our business led us to conclude that a goodwill impairment charge was appropriate. First, in connection with our annual planning process for 2019, we determined that the revenue growth rates for our fixation business likely would not be consistent with the expectations on which our initial 2018 annual plan was built. Second, in connection with our annual planning process for 2019, we curtailed a new sales channel strategy that we had implemented in 2018 to build a direct sales force since we determined that the sales channel strategy was not generating the benefits that we had originally thought it would. We also determined by the end of 2018 that our assumptions regarding the expansion of our international business were inaccurate and likely would not prove to be true in the near future in light of our business priorities, international regulatory issues and anticipated funding requirements.

In its evaluation of goodwill, the Company performs an assessment of qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired. We considered factors such as, but not limited to, macroeconomic conditions, industry and market considerations, and financial performance, including the planned revenue and earnings of X-spine. The results from the assessment and a Step 1 analysis allowed the Company to conclude that a further valuation of goodwill was necessary, as indicators of impairment existed as of December 31, 2018. As part of the Step 1 analysis, we updated the discounted cash flow analysis used to determine the Company's initial fair value as of December 31, 2018. Based on the results of the impairment test and analysis, we concluded that the fair value of the Company was less than its carrying amount.

Based on the results of the impairment test and analysis, we concluded that application of a Step 2 goodwill impairment test was necessary to determine the amount of impairment loss, if any. We engaged a third-party specialist to assist in the valuation. We compared the carrying value of the assets, including cash, and non-interest-bearing liabilities to the derived enterprise value of the business. As a result, we recorded a non-cash goodwill impairment charge of \$38.3 million. The remaining goodwill was valued at \$3.2 million as of December 31, 2018. This amount remains unchanged as of June 30, 2019.

Intangible assets consist of various patents with regard to processes for our products and intangible assets associated with the acquisition of X-spine.

Given the level of impairment initially indicated by the Step 1 analysis, an ASC 360, *Property, Plant and Equipment*, test was performed on the Company's identified intangible assets. As a result of the analysis, the Company recorded an impairment charge of \$9.8 million to its intangible assets during the fourth quarter of 2018.

The following table sets forth information regarding intangible assets (in thousands):

	June 30, 2019	December 31, 2018
Patents	\$ 847	\$ 847
Accumulated amortization	(303)	(274)
Intangible assets, net	<u>\$ 544</u>	<u>\$ 573</u>

The following is a summary of estimated future amortization expense for intangible assets as of June 30, 2019 (in thousands):

Remainder of 2019	\$ 30
2020	58
2021	58
2022	58
2023	58
Thereafter	282
Total	<u>\$ 544</u>

(5) Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2019	December 31, 2018
Wages/commissions payable	\$ 3,808	\$ 3,332
Other accrued liabilities	2,059	1,818
Accrued liabilities	<u>\$ 5,867</u>	<u>\$ 5,150</u>

(6) Debt

Convertible Note Indenture

During the first quarter of 2018 in connection with our Restructuring, all of the outstanding 6.00% convertible senior unsecured notes due 2021 were converted into shares of our common stock and the Indenture governing such notes was discharged.

Twenty-Second Amendment to the Amended and Restated Credit Agreement

Effective January 30, 2018, the Company and the Investors entered into the Twenty-Second Amendment to the Amended and Restated Credit Agreement dated July 27, 2015, which amended the Amended and Restated Credit Agreement by and between Bacterin and ROS Acquisition Offshore LP (collectively, the “Prior Credit Agreement” and the facility created under such agreement, the “Credit Facility”). This amendment further deferred the Company’s accrued interest payment date for the fiscal quarters ended on December 31, 2016, March 31, 2017, June 30, 2017, September 30, 2017, and December 31, 2017, until February 28, 2018.

Twenty-Third Amendment to the Prior Credit Agreement

Effective February 14, 2018, the Company and the Investors entered into the Twenty-Third Amendment to the Prior Credit Agreement, which further amended the Prior Credit Agreement and terms of the Credit Facility. As of this amendment, the interest payable was carried forward. As modified, the interest rate options within the Credit Facility was as follows: (i) through December 31, 2018, we had the option at our sole discretion (a) to pay PIK Interest at LIBOR (as defined in the Credit Facility) plus 12% or (b) pay cash interest at LIBOR plus 10%; (ii) beginning January 1, 2019 through June 30, 2019, we had the option at our sole discretion to either (a) pay PIK Interest at LIBOR plus 15% or (b) pay cash interest at LIBOR plus 10%; and (iii) beginning July 1, 2019 through the maturity date of the Credit Facility, we will pay cash interest at LIBOR plus 10%. The amendment also reduced the prepayment or repayment fee under the Credit Facility to 1%.

This amendment also modified the financial covenants in the Prior Credit Agreement, including removing the minimum revenue covenant and providing a minimum liquidity covenant, a consolidated leverage ratio covenant, and a minimum consolidated EBITDA covenant, all as defined in the Prior Credit Agreement.

Twenty-Fourth Amendment to the Prior Credit Agreement

On September 17, 2018, the Company and the Investors entered into the Twenty-Fourth Amendment to the Prior Credit Agreement (the “24th Amendment”), which further amended the Prior Credit Agreement and the terms of the Credit Facility, effective as of April 1, 2018. Under the terms of the 24th Amendment, no interest was charged on the loans under the Credit Facility (the “Loans”) from April 1, 2018, until June 30, 2018.

Due to the interest rate relief provided by the 24th Amendment, the Company performed an assessment of the changes to the terms of the Credit Facility in accordance with ASC 470, *Debt*. The Credit Facility was modified based on an evaluation of the present value of cash flows for the old and new debt instruments. Given the modification, a new effective interest rate of 13.45% for the modified loan was calculated based on the carrying amount of the debt and the present value of the revised future cash flows. The modified interest rate is effective through the remaining life of the loan.

Twenty-Fifth Amendment to the Prior Credit Agreement

Also on September 17, 2018, the Company and the Investors entered into the Twenty-Fifth Amendment to the Prior Credit Agreement (the “25th Amendment”), which further amended the Prior Credit Agreement and terms of the Credit Facility, effective as of August 1, 2018. Under the terms of the 25th Amendment:

- no interest was charged on the Loans under the Credit Facility from July 1, 2018, until December 31, 2018;
- the Optional PIK Interest (as such term is defined in the Prior Credit Agreement) was decreased from 15% plus the LIBO Rate (as such term is defined in the Amended and Restated Credit Agreement) to 10% plus the LIBO Rate, with a 2.3125% floor;
- a LIBO Rate floor of 2.3125% was added; and
- the fee due upon payment, prepayment, or repayment of the principal amount of the Loans under the Credit Facility, whether on the maturity date or otherwise, was increased to 2% from 1% of the aggregate principal amount of such payment, prepayment, or repayment.

The Company issued warrants to purchase an aggregate of 1.2 million shares of Company common stock to the Investors with an exercise price of \$0.01 per share and an expiration date of August 1, 2028 (collectively, the “2018 Warrants”). The issuance of the 2018 Warrants occurred on September 17, 2018 and was a condition to the effectiveness of the 25th Amendment. See Note 9, “Warrants,” below.

Second Amended and Restated Credit Agreement

On March 29, 2019, the Company and the Investors entered into a Second Amended and Restated Credit Agreement (the “Second Amended and Restated Credit Agreement”), which amended and restated the Prior Credit Agreement. Under the Second Amended and Restated Credit Agreement:

- We may continue to make requests for term loans in amounts equal to the remaining commitment for additional delayed draw loans, which was approximately \$2.2 million as of the date of the Second Amended and Restated Credit Agreement, and may request additional term loans with the Investors in an aggregate amount of up to \$10.0 million, with the amount of each loan draw to be subject to our production of a thirteen-week cash flow forecast that is approved by the Investors and which shows a projected cash balance for the following two-week period of less than \$1.5 million, as well as the satisfaction (or waiver in writing by each Investor) of conditions precedent, including closing certificate, delivery of budget, and other satisfactory documents;
- no interest will accrue on the Loans under the Second Amended and Restated Credit Agreement from and after January 1, 2019 until March 31, 2020;
- beginning April 1, 2020 through the maturity date of the Second Amended and Restated Credit Agreement, interest payable in cash will accrue on the Loans under the Credit Agreement at a rate per annum equal to the sum of (a) 10.00% plus (b) the higher of (x) the LIBO Rate (as such term is defined in the Second Amended and Restated Credit Agreement) and (y) 2.3125%;
- the maturity date of the Loans is March 31, 2021;
- the Consolidated Senior Leverage Ratio and Consolidated EBITDA (as such terms were defined in the Prior Credit Agreement) financial covenants were deleted, and a new Revenue Base (as such term is defined in the Second Amended and Restated Credit Agreement) financial covenant was added; and
- the key person event default provision was revised to refer specifically to certain recently-hired executive officers of the Company.

Long-term debt, less issuance costs consists of long-term debt due to the lenders under our Second Amended and Restated Credit Agreement as of June 30, 2019 and under our Prior Credit Agreement as of December 31, 2018. The execution of the Second Amended and Restated Credit Agreement during the first quarter of 2019 and the changes to our credit facility reflected therein, including the interest rate relief and extended maturity, along with the additional availability, were determined to be and accounted for as a debt extinguishment under GAAP, resulting in the write-off of the original loan and associated issuance costs. The present value of the new loan was determined to be \$72.7 million as of March 31, 2019 with the Company recording an increase to additional paid-in capital of \$7.3 million. Because of the related party affiliation between the Company and our credit facility lenders, this debt extinguishment resulted in an increase in additional paid-in capital rather than flowing through our condensed consolidated statements of operations as a gain on extinguishment. As of June 30, 2019, our long-term debt, less issuance costs was \$73.8 million. While our long-term debt, less issuance costs balance was \$73.8 million as of June 30, 2019 under GAAP, the Company owes a principal balance of \$55.8 million plus accrued PIK interest of \$29.0 million as of June 30, 2019. Assuming no debt payments are made, our long-term debt, less issuance costs line item will continue to increase until the loan’s March 31, 2021 maturity date.

Due to the terms within the Second Amended and Restated Credit Agreement, the Company performed an assessment of the changes to the terms of the Prior Credit Agreement in accordance with ASC 470. Given there were cumulative changes to the Prior Credit Agreement within one year of March 29, 2019, the debt terms that existed as of March 29, 2018 were used in the evaluation of the present value of cash flows for the old and new debt instruments which resulted in the extinguishment of the Prior Credit Agreement and recognition of the Second Amended and Restated Credit Agreement. A new effective interest rate of 13.19% for the Second Amended and Restated Credit Agreement was calculated based on the carrying amount of the debt and the present value of the revised future cash flows. This rate is effective through the remaining life of the loan.

On April 1, 2019, the Company issued warrants to purchase an aggregate of 1.2 million shares of Company common stock to the Investors, with an exercise price of \$0.01 per share and an expiration date of April 1, 2029 (collectively, the "2019 Warrants"). The issuance of the 2019 Warrants occurred on April 1, 2019 and was a condition to the effectiveness of the Second Amended and Restated Credit Agreement.

Long-term debt consists of the following (in thousands):

	June 30, 2019	December 31, 2018
Amounts due under Second Amended and Restated Credit Agreement	\$ 72,657	\$ —
Amounts due under Prior Credit Agreement	—	55,787
PIK interest payable related to Credit Agreements	1,149	27,178
Plus: 2% exit fee on Prior Credit Agreement	133	254
Gross long-term debt	<u>73,939</u>	<u>83,219</u>
Less: discount on Credit Agreements	—	(5,114)
Less: total debt issuance costs on Credit Agreements	(108)	(166)
Long-term debt, less issuance costs	<u>\$ 73,831</u>	<u>\$ 77,939</u>

All gross long-term debt, comprising of a principal balance of \$55.8 million plus accrued PIK interest of \$29.0 million as of June 30, 2019, will mature March 31, 2021 and become payable at that time.

The following is a summary of maturities due on the long-term debt as of June 30, 2019 (in thousands):

Remainder of 2019	\$ —
2020	—
2021	73,939
2022	—
2023	—
Thereafter	—
Total	<u>\$ 73,939</u>

(7) Equity

Convertible Note Indenture

During the first quarter of 2018, in connection with our Restructuring (defined above), all of the outstanding 6.00% convertible senior unsecured notes due 2021 were converted or exchanged into shares of our common stock, and the Indenture governing such notes was discharged. On January 17, 2018, the Investors converted a \$1.6 million aggregate principal amount of 6.00% convertible senior unsecured promissory notes due in 2021, which were issued effective January 17, 2017, plus accrued and unpaid interest, into 189,645 shares of our common stock. On February 14, 2018, an additional \$70.3 million aggregate principal amount of notes, plus accrued and unpaid interest, were exchanged for 10,401,309 newly-issued shares of our common stock.

Private Placement SPA

On February 14, 2018, we sold to the Investors, pursuant to the Private Placement SPA, 945,819 shares of our common stock at a price of \$7.20 per share for aggregate proceeds of \$6.8 million.

Registration Rights Agreement

On May 15, 2018, we filed a shelf resale registration statement with the SEC pursuant to our obligations under the Registration Rights Agreement. This registration statement was declared effective by the SEC on June 4, 2018.

Rights Offering

On May 18, 2018, we distributed to holders of our common stock, at no charge, non-transferable subscription rights to purchase up to an aggregate of 1,137,515 shares of our common stock (the "Rights Offering"). In the Rights Offering, holders received 0.0869816 subscription rights for each share of common stock held on the record date, April 27, 2018. The units were priced at \$7.20 per unit. The Rights Offering expired on June 18, 2018, at which time the rights were no longer exercisable. We issued 129 shares of our common stock in the Rights Offering, resulting in \$0.9 thousand in gross proceeds to us.

(8) Stock-Based Compensation

Xtant Medical Holdings, Inc. 2018 Equity Incentive Plan

On August 1, 2018, our stockholders approved the Xtant Medical Holdings, Inc. 2018 Equity Incentive Plan (the "2018 Plan") at the 2018 annual meeting of stockholders of Xtant. The 2018 Plan became effective immediately upon approval by our stockholders and will expire on July 31, 2028, unless terminated earlier. The 2018 Plan replaced the Amended and Restated Xtant Medical Equity Incentive Plan (the "Prior Plan") with respect to future grants of equity awards. The Prior Plan will continue to govern equity awards granted under the Prior Plan. The 2018 Plan permits the Board, or a committee thereof, to grant to eligible employees, non-employee directors, and consultants of the Company non-statutory and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, deferred stock units, performance awards, non-employee director awards, and other stock-based awards. The Board may select 2018 Plan participants and determine the nature and amount of awards to be granted. Subject to adjustment as provided in the 2018 Plan, the number of shares of our common stock available for issuance under the 2018 Plan is 1,307,747 shares. Under the 2018 Plan, shares of our common stock related to awards granted under the plan that terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of the shares will be available again for grant under the plan.

The Board has granted various awards under the 2018 Plan to certain directors, officers and employees. As of June 30, 2019, stock options to purchase an aggregate of 130,770 shares of our common stock, a restricted stock award for 13,021 shares of common stock, and restricted stock units covering 40,000 shares were outstanding under the 2018 Plan. During the six months ended June 30, 2019, options to purchase 420,000 shares of common stock granted under the 2018 Plan were forfeited and cancelled as a result of the termination of employment of optionees. As of June 30, 2019, of the 1,307,747 shares of common stock available for issuance under the 2018 Plan, 1,110,935 shares remained available for future issuance. Shares of common stock issued under the 2018 Plan may be newly issued shares or reacquired shares.

The Board also granted various awards under the Prior Plan. As of June 30, 2019, stock options to purchase an aggregate of 18,135 shares of our common stock and restricted stock awards for 23,438 shares of our common stock were outstanding under the Plan. During the six months ended June 30, 2019, options to purchase 3,053 shares of our common stock granted under the Plan were forfeited and cancelled as a result of the termination of employment of optionees.

From time to time, we have granted options to purchase shares of our common stock outside of any stockholder-approved plan to new hires (collectively the “Non-Plan Grants”). As of June 30, 2019, no Non-Plan Grants were outstanding. During the six months ended June 30, 2019, Non-Plan Grants to purchase 25,000 shares of common stock were forfeited and cancelled as a result of the termination of employment of the optionee.

Stock options granted under the 2018 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 exercise price of all stock options granted under the 2018 Plan must be at least equal to the fair market value of the shares of common stock on the date of the grant. The 2018 Plan is administered by the Board. Stock options granted under the 2018 Plan are generally not transferable, vest in installments over the requisite service period, and are exercisable during the stated contractual term of the option only by the optionee.

Stock-based compensation expense recognized in the consolidated statements of operations for the six months ended June 30, 2019 and 2018 is based on awards expected to vest and reflects an estimate of awards that will be forfeited. ASU No. 2018-07, *Stock Compensation (Topic 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. Stock options to purchase an aggregate of 100,000 shares of common stock were issued during the six months ended June 30, 2019; zero options were issued during the same period in 2018.

Stock option activity, including options granted under the 2018 Plan, the Prior Plan, and the Non-Plan Grants, was as follows:

	2019			2018		
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value at Grant Date Per Share	Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value at Grant Date Per Share
Outstanding at January 1	496,958	\$ 9.90	\$ 6.62	67,465	\$ 71.03	\$ 36.85
Granted	100,000	\$ 2.24	\$ 1.95	—	\$ —	\$ —
Cancelled or expired	(448,053)	\$ 4.64	\$ 3.69	(22,971)	\$ 96.44	\$ 46.94
Outstanding at June 30	148,905	\$ 9.12	\$ 6.53	44,494	\$ 53.14	\$ 27.36
Exercisable at June 30	18,135	\$ 52.04	\$ 33.67	44,494	\$ 53.14	\$ 27.36

The estimated fair value of stock options granted is calculated using the Black-Scholes-Merton method applied to individual grants. Key assumptions used to estimate the fair value of stock awards are as follows:

	Six Months Ended June 30,	
	2019	2018
Risk free interest rate	2.7%	—
Dividend yield	0%	—
Expected term	10 years	—
Expected volatility	91%	—
Expected forfeiture rate	30%	—

The aggregate intrinsic value of options outstanding as of June 30, 2019 was \$43 thousand. The closing price of our common stock at June 30, 2019 was \$3.00, which was less than the exercise prices of all options issued under the Prior Plan or the 2018 Plan, other than an option to purchase 100,000 shares at an exercise price of \$2.24.

During the six months ended June 30, 2018, all options were fully vested and expensed due to the change in control as a result of the Corporate Restructuring, noted above.

Total stock-based compensation recognized for employees and directors was \$0.2 million and \$0.4 million for the six months ended June 30, 2019 and 2018, respectively, and was recognized as Non-cash compensation expense.

(9) Warrants

2019 Warrants

On April 1, 2019, the Company issued warrants to purchase an aggregate of 1.2 million shares of Company common stock to the Investors with an exercise price of \$0.01 per share and an expiration date of April 1, 2029. As a result of the issuance of the warrant to purchase 1.2 million shares of common stock on April 1, 2019, the total outstanding common stock warrants as of April 1, 2019 was 2,910,609. The issuance of the 2019 Warrants was a condition to the effectiveness of the Second Amended and Restated Credit Agreement. The fair value of the 2019 Warrants upon issuance was determined to be \$9 thousand. The significant decrease in value of the 2019 Warrants compared to the 2018 Warrants was attributable to the updated forecasts and assumptions used by the Company during the annual planning process for 2019 that resulted in our decision to conclude that a goodwill and intangible asset impairment charge was appropriate during the fourth quarter of 2018. See Note 4, "Goodwill and Intangible Assets." The 2019 Warrants meet all the requirements to be classified as equity awards in accordance with ASC No. 815-40. The number of shares of Company common stock issuable upon exercise of the 2019 Warrants is subject to standard and customary anti-dilution provisions for stock splits, stock dividends, or similar transactions.

	<u>Common Stock Warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2019	1,710,609	\$ 7.33
Issued	1,200,000	0.01
Expired	—	—
Outstanding at June 30, 2019	<u>2,910,609</u>	<u>\$ 4.31</u>

The estimated fair value was derived using a valuation model with the following weighted-average assumptions:

	<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Value of underlying common stock (per share)	\$ 3.00	\$ 5.55
Risk free interest rate	1.8%	2.62%
Expected term in years	3.2	4.1
Volatility	87%	62%
Dividend yield	0%	0%

The following table summarizes our activities related to warrants accounted for as a derivative liability for the six months ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Balance at January 1,	87,509	93,759
Derivative warrants issued	—	—
Derivative warrants exercised	—	—
Derivative warrants expired	—	(6,250)
Balance at June 30,	<u>87,509</u>	<u>87,509</u>

We utilize a lattice valuation model to determine the fair market value of the warrants accounted for as liabilities. The lattice valuation model accommodates the probability of exercise price adjustment features, as outlined in the warrant agreements. We recorded an unrealized loss of \$11 thousand resulting from the change in the fair value of the warrant derivative liability for the six months ended June 30, 2019. Under the terms of some of our warrant agreements, at any time while the warrant is outstanding, the exercise price per share can be reduced to the price per share of future subsequent equity sales of our common stock or a common stock equivalent that is lower than the exercise price per share as stated in the warrant agreement.

(10) Commitments and Contingencies

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use (“ROU”) asset and lease liability on their balance sheet for all leases with terms beyond 12 months. The new standard also requires enhanced disclosures intended to provide more transparency and information to financial statement users about lease portfolios. The distinction between operating and finance leases will continue to exist under the new standard. Additionally, the recognition and measurement of operating and finance lease expenses and cash flows will not change significantly from current treatment. For finance leases, lessees will continue to recognize interest expense on the lease liability using the effective yield method, while the right-of-use asset will be amortized on a straight-line basis. For operating leases, expense will be recognized on a straight-line basis, consistent with the previous standard.

Operating Leases

We currently lease five office facilities, having terminated the Miamisburg, Ohio, lease on February 28, 2019. These leases are under non-cancelable operating lease agreements with expiration dates between 2019 and 2025. We have the option to extend certain leases to five or ten-year term(s), and we have the right of first refusal on any sale.

The Company records lease liabilities within current liabilities or long-term liabilities based upon the length of time associated with the lease payments. The Company records its long-term operating leases as right-of-use assets. Upon initial adoption, using the modified retrospective transition approach, no leases with terms less than 12-months have been capitalized to the balance sheet consistent with ASC 842. Instead, these leases are recognized in the condensed consolidated statement of operations on a straight-line expense throughout the lives of the leases. All leases of the Company do not contain common area maintenance or security agreements. In connection with certain operating leases, the Company has security deposits recorded and maintained as a prepaid asset totaling \$44 thousand as of June 30, 2019.

We have made certain assumptions and judgments when applying ASC 842, the most significant of which is that we elected the package of practical expedients available for transition, which allow us to not reassess whether expired or existing contracts contain leases under the new definition of a lease, lease classification for expired or existing leases, and whether previously capitalized initial direct costs would qualify for capitalization under ASC 842. Additionally, we did not elect to use hindsight when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset.

Present Value of Long-term Leases

(in thousands):	June 30, 2019
Right-of-use assets, net	\$ 2,296
Current portion of lease liability	511
Lease liability, less current portion	1,796
Total lease liability	<u>\$ 2,307</u>

As of June 30, 2019, the weighted-average remaining lease term was 5.25 years. The Company’s lease agreements do not provide a readily determinable implicit rate nor is it available to the Company from its lessors. Instead, as of June 30, 2019, the Company estimates the weighted-average discount rate for its operating leases to be 5.2% to present value based on the incremental borrowing rate.

Future minimum payments for the next five years and thereafter as of June 30, 2019 under these long-term operating leases are as follows (in thousands):

Remainder of 2019	\$	282
2020		511
2021		516
2022		532
2023		473
Thereafter		404
Total future minimum lease payments		<u>2,718</u>
Less amount representing interest		<u>(411)</u>
Present value of obligations under operating leases		2,307
Less current portion		(511)
Long-term operating lease obligations	\$	<u><u>1,796</u></u>

Rent expense was \$0.3 million and \$0.6 million for each of the six months ended June 30, 2019 and 2018, respectively. We have no contingent rent agreements.

Financing Leases

Future minimum payments for the next five years and thereafter as of June 30, 2019 under financing leases for equipment are as follows (in thousands):

Remainder of 2019	\$	173
2020		218
2021		—
2022		—
2023		—
Thereafter		—
Total future minimum lease payments		<u>391</u>
Less amount representing interest		<u>(38)</u>
Present value of obligations under financing leases		353
Less current portion		(337)
Long-term financing lease obligations	\$	<u><u>16</u></u>

Litigation

On December 13, 2018, a complaint was filed by RSB Spine, LLC, against Xtant Medical Holdings, Inc., which claims that some of our products, including the Irix-ATM Lumbar Integrated Fusion System and the Irix-CTM Cervical Integrated Fusion System, infringe certain of RSB Spine's patents. The complaint seeks an adjudication of infringement, an injunction against future infringement, unspecified damages for infringement, a finding that such infringement is willful, and treble damages for such willful infringement. This action was brought in the United States District Court for the District of Delaware. We filed an answer and affirmative defenses to the complaint on March 29, 2019, denying the allegations of infringement and seeking dismissal of RSB Spine's claims and requested relief. The Court entered a scheduling order on May 9, 2019, scheduling trial for no sooner than June 21, 2021. We intend to vigorously defend the claims in this action. There can be no assurance that the resolution of this matter will not have a material adverse effect on our business, financial condition, or results of operations.

On August 10, 2017, a civil suit complaint was filed against Xtant in the United States District Court, District of Nevada, by Axis Spine NV, LLC (“Axis”), Case No. 2:17-CV-02147-APG-VCF. The complaint alleges breach of contract, breach of the implied covenant of good faith and fair dealing, and tortious interference with prospective economic advantage with respect to an alleged medical device distribution relationship between the parties. Specifically, Axis alleges that Xtant owes payments to Axis for its medical device distributions. Axis seeks relief in the form of damages in an amount in excess of \$1.0 million. On March 6, 2019, the Court granted Xtant’s motion for summary judgment on Axis’s claims for breach of contract and breach of the covenant of good faith and fair dealing but denied Xtant’s motion for summary judgment on Axis’s unjust enrichment claim. In June 2019, the parties entered into an agreement to settle this dispute. This agreement resulted in a settlement payment by Xtant in an amount that is not material to our financial position or result of operations.

In October 2016, Phoenix Surgical, Inc., a former distributor, sued Xtant for its alleged participation in a scheme orchestrated by a former Phoenix Surgical sales representative to divert sales away from Phoenix Surgical to another entity. On April 26, 2019, the parties entered into a confidential settlement agreement which resolved the dispute and resulted in a settlement payment by Xtant in an undisclosed amount that is not material to our financial position and did not have a material effect on our results of operations.

In addition, we are subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted from time to time. These matters arise in the ordinary course and conduct of our business and may include, for example, commercial, product liability, intellectual property, and employment matters. We intend to continue to defend the Company vigorously in such matters and when warranted, take legal action against others. Furthermore, we regularly assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our financial statements.

An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on our assessment, we have adequately accrued an amount for contingent liabilities currently in existence. We do not accrue amounts for liabilities that it does not believe are probable or that it considers immaterial to its overall financial position. Litigation is inherently unpredictable, and unfavorable resolutions could occur. As a result, assessing contingencies is highly subjective and requires judgment about future events. The amount of ultimate loss may exceed the Company’s current accruals, and it is possible that its cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Indemnifications

Our indemnification arrangements generally include limited warranties and certain provisions for indemnifying customers against liabilities if our products or services infringe a third-party’s intellectual property rights. To date, we have not incurred any material costs as a result of such warranties or indemnification provisions and have not accrued any liabilities related to such obligations in the accompanying condensed consolidated financial statements.

We have also agreed to indemnify our 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 us, arising out of that person’s services as our director or officer or that person’s services provided to any other company or enterprise at our request.

(11) Income Taxes

In evaluating the realizability of the net deferred tax assets, we take into account a number of factors, primarily relating to the ability to generate taxable income. Where it is determined that it is likely that we will be unable to realize deferred tax assets, a valuation allowance is established against the portion of the deferred tax asset. Because it cannot be accurately determined when or if we will become profitable, a valuation allowance was provided against the entire deferred income tax asset balance.

The Company did not recognize any interest or penalties related to income taxes for the six months ended June 30, 2019 and 2018.

(12) Supplemental Disclosure of Cash Flow Information

Supplemental cash flow information is as follows (in thousands):

	Six Months Ended	
	June 30,	
	2019	2018
Supplemental disclosure of cash flow information		
<i>Cash paid during the period for:</i>		
Interest	\$ 47	\$ 170
<i>Non-cash activities:</i>		
Issuance of capital leases	\$ —	\$ 84
Lease liability from right-of-use assets	\$ 2,296	\$ —
Interest converted into common stock	\$ —	\$ 556
Conversion of convertible debt to equity	\$ —	\$ 71,865
Convertible PIK interest	\$ —	\$ 4,764
Conversion of interest related to the Credit Facility to long-term debt	\$ —	\$ 7,977
Write-off of convertible debt issuance cost	\$ —	\$ 1,012
Transfer of inventory to property and equipment	\$ —	\$ 439
Extinguishment of Prior Credit Agreement (including debt issuance costs)	\$ 79,624	\$ —
Write-off of Prior Credit Agreement debt issuance costs and existing ROS fees	\$ 307	\$ —
Recognition of Second Amended and Restated Credit Agreement	\$ 72,657	\$ —
Recognition of 2019 Warrants	\$ 9	\$ —

(13) Related Party Transactions

The Investors, owning approximately 70% of the Company's outstanding common stock, are the sole holders of our outstanding long-term debt. In addition, as described in more detail under Note 1, "Business Description and Summary of Significant Accounting Policies," we are party to an Investor Rights Agreement and Registration Rights Agreement with the Investors. Transactions between the Company and the Investors are conducted under the provisions of the Second Amended and Restated Credit Agreement, the Prior Credit Agreement, the Investor Rights Agreement, and the Registration Rights Agreement, as noted above.

On April 5, 2019, the Company entered into a Sublease Agreement wherein the Company leases from Cardialen, Inc., a portion of Cardialen's office space commencing April 2019 on a month-to-month basis until January 2024, unless terminated earlier upon notice of 60 days, for a monthly rental fee of approximately \$2,100 for 2019. Because Jeffrey Peters is both a member of our Board and the Chief Executive Officer, President, and a Director of Cardialen, this transaction qualifies as a related party transaction.

All related party transactions are reviewed and approved by the Audit Committee or the disinterested members of the full Board.

(14) Segment and Geographic Information

The Company's management reviews financial results and manages the business on an aggregate basis. Therefore, financial results are reported in a single operating segment: the development, manufacture, and marketing of orthopedic medical products and devices.

The Company attributes revenues to geographic areas based on the location of the customer. Approximately 96% and 95% of sales were in the United States for the six months ended June 30, 2019 and 2018, respectively. Total revenue by major geographic area is as follows (in thousands):

	Three Months Ended	
	June 30,	
	2019	2018
United States	\$ 14,585	\$ 17,319
Rest of world	686	1,422
Total revenue	\$ 15,271	\$ 18,741

	Six Months Ended	
	June 30,	
	2019	2018
United States	\$ 30,702	\$ 34,792
Rest of world	1,295	1,882
Total revenue	\$ 31,997	\$ 36,674

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess our financial condition and results of operations. The following discussion should be read in conjunction with our condensed consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and accompanying notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as amended by Form 10-K/A. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Some of the numbers included herein have been rounded for the convenience of presentation. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed above in "Cautionary Statement Regarding Forward-Looking Statements" and elsewhere in this Form 10-Q.

Executive Summary

We develop, manufacture, and market regenerative medicine products and medical devices for domestic and international markets. Our products serve the specialized needs of orthopedic and neurological surgeons, including orthobiologics for the promotion of bone healing, implants, and instrumentation for the treatment of spinal disease. We promote our products in the United States largely through independent distributors and stocking agents, augmented by direct employees.

During the first quarter of 2018, we effected a significant restructuring pursuant to which we converted an aggregate of \$71.9 million of aggregate principal amount of debt into equity by issuing an aggregate of 10,590,954 shares of our stock, in cancellation thereof, issued an additional 945,819 shares of our common stock in a private placement for an aggregate purchase price of \$6.8 million, completed a 1-for-12 reverse split of our common stock after the close of business on February 13, 2018, and replaced our entire Board of Directors. We completed this restructuring during the second quarter of 2018 with a common stock stockholder rights offering, which expired on June 18, 2018, and resulted in the issuance of an additional 129 shares of common stock. Upon completion of this restructuring and as of June 30, 2019, two funds affiliated with OrbiMed, which held a significant portion of our converted indebtedness and continue to hold all of our currently outstanding debt, own approximately 70% of our outstanding common stock. Because of this significant ownership, we are a "controlled company" within the meaning of NYSE American corporate governance standards.

During 2018 and continuing through the second quarter of 2019, we experienced reduced revenues compared to prior year periods due primarily to reduced demand for our hardware products in both domestic and international markets. As of June 30, 2019, our cash and cash equivalents were \$7.3 million. On March 29, 2019, we entered into a Second Amended and Restated Credit Agreement, which amended and restated our Prior Credit Agreement, revised certain covenants and increased our credit availability by \$10.0 million. As of June 30, 2019, we had availability of \$12.2 million under our credit facility. We believe that cash and cash equivalents, together with the availability under our new Second Amended and Restated Credit Agreement, will be sufficient to meet our anticipated cash requirements for at least 12 months.

On April 4, 2019, we received a letter from NYSE Regulation notifying us that we are not in compliance with the NYSE American's continued listing standards relating to stockholders' equity. Specifically, we are not in compliance with Section 1003(a)(i) of the NYSE American Company Guide ("Company Guide") with stockholders' equity of less than \$2.0 million and net losses in two of the three most recent fiscal years, Section 1003(a)(ii) with stockholders' equity of less than \$4.0 million and net losses in three of the four most recent fiscal years, and Section 1003(a)(iii) with stockholders' equity of less than \$6.0 million and net losses in the five most recent fiscal years. Therefore, we became subject to the procedures and requirements of Section 1009 of the Company Guide. On May 3, 2019, we submitted a plan of compliance to NYSE Regulation addressing how we intend to regain compliance with Sections 1003(a)(i), 1003(a)(ii), and 1003(a)(iii) or meet the exemption in Section 1003(a) of the Company Guide by October 4, 2020. On May 23, 2019, we received a letter from NYSE Regulation stating that the Company's plan of compliance has been accepted and the Company has been granted a plan period through October 4, 2020. We have been advised that we will be subject to delisting proceedings if we do not regain compliance prior to October 4, 2020 or if NYSE Regulation determines that we are not making progress consistent with our plan of compliance. Our common stock will continue to trade on the NYSE American under the symbol "XTNT," with the added designation of ".BC" to indicate that we are not in compliance with the continued listing standards.

Results of Operations

Comparison of Three and Six Months Ended June 30, 2019 and June 30, 2018

Revenue

Total revenue for the three and six months ended June 30, 2019 was \$15.3 million and \$32.0 million, respectively, which represents a decrease of 18.5% and 12.8%, respectively, compared to \$18.7 million and \$36.7 million for the three and six months ended June 30, 2018, respectively. These declines were primarily due to reduced demand for our hardware products in both domestic and international markets and for the three-month comparison reduced demand for our biologics products. The reduced demand for our hardware products was due in part to effects from the December 2018 recall of our Calix Lumbar Spine Implant System and the termination of an advisory agreement with an entity that provided services to some of our customers, both as previously disclosed, and the continued transition of some of our older independent sales agents.

Cost of Sales

Cost of sales consists primarily of manufacturing and product purchase costs as well as depreciation of surgical trays. Cost of sales also includes reserves for estimated excess inventory, inventory on consignment that may be missing and not returned, and reserves for estimated missing and damaged consigned surgical instruments. Cost of sales for the three months ended June 30, 2019 decreased 14.4% to \$5.4 million from \$6.3 million for the three months ended June 30, 2018. Cost of sales for the six months ended June 30, 2019 decreased 5.8% to \$11.3 million from \$12.0 million for the six months ended June 30, 2018. As a percentage of revenue, cost of sales increased to 35.1% and 35.3% for the three and six months ended June 30, 2019, respectively, versus 33.4% and 32.6% for the three and six months ended June 30, 2018, respectively. These percentage increases were attributed primarily to an increase in the Company's inventory reserves of \$0.4 million for the three month comparison and \$0.5 million for the six month comparison as well as an increase in manufacturing overhead absorption.

Operating Expenses

Operating expenses include general and administrative expenses, sales and marketing expenses, research and development expenses, depreciation and amortization, impairment of goodwill and intangible assets, restructuring expenses, and compensation costs, including incentive compensation. Operating expenses decreased 29.0%, or \$4.3 million, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. Operating expenses decreased 23.4%, or \$6.7 million, for the six months ended June 30, 2019 compared to the six months ended June 30, 2018. As a percent of total revenue, operating expenses were 68.5% and 68.6% for the three and six months ended June 30, 2019, respectively, compared to 78.6% and 78.1% for the three and six months ended June 30, 2018, respectively. These decreases in operating expenses were primarily due to a reduction in sales and marketing expenses of \$2.5 million for the three month comparison and \$4.1 million for the six month comparison due primarily to lower sales commissions and travel expenses and restructuring expenses of \$1.2 million and \$2.0 million for the three and six months ended June 30, 2018 which did not recur during the current year periods. In addition, amortization expense was lower by \$0.8 million for the three month comparison and \$1.7 million for the six month comparison because of the impairment of intangibles assets that occurred in the fourth quarter of 2018.

General and Administrative

General and administrative expenses consist principally of personnel costs for corporate employees, cash-based and stock-based compensation related costs, and corporate expenses for legal, accounting, and other professional fees, as well as occupancy costs. General and administrative expenses increased 17.3%, or \$0.6 million, to \$4.0 million for the three months ended June 30, 2019 compared to the same period of 2018. General and administrative expenses increased 27.4%, or \$1.8 million, to \$8.2 million for the six months ended June 30, 2019 compared to the same period of 2018. These increases were primarily attributable to legal settlement expenses totaling \$0.3 million and \$0.8 million, in the respective current year periods, bad debt expense totaling \$0.1 million for the three month comparison and \$0.2 million for the six month comparison, and executive recruiting fees totaling \$0.4 million for the six months ended June 30, 2019.

Sales and Marketing

Sales and marketing expenses consist primarily of sales commissions, personnel costs for sales and marketing employees, costs for trade shows, sales conventions and meetings, travel expenses, advertising, and other sales and marketing related costs. Sales and marketing expenses decreased 29.0% and 24.2% to \$6.1 million and \$12.8 million for the three and six months ended June 30, 2019, respectively, compared to \$8.5 million and \$16.9 million for the three and six months ended June 30, 2018, respectively. As a percentage of revenue, sales and marketing expenses decreased to 39.8% and 40.1% for the three and six months ended June 30, 2019, respectively, from 45.6% and 46.1% for the three and six months ended June 30, 2018, respectively. These decreases were primarily due to lower travel expenses, a reduction in headcount, decreased commissions attributable to decreased revenue, and the favorable impact from changes made to the commission rate structure under certain distribution agreements.

Research and Development

Research and development expenses consist primarily of internal costs for the development of new technologies and processes. Research and development expenses decreased 49.8% and 43.3% to \$0.2 million and \$0.5 million for the three and six months ended June 30, 2019, respectively, from \$0.4 million and \$0.8 million for the three and six months ended June 30, 2018, respectively. These decreases were primarily due to a reduction in headcount compared to the prior year periods. Additionally, during the first quarter of 2019, management decided to defer a portion of its new product development spend into the third and fourth quarters of 2019.

Depreciation and Amortization

Depreciation and amortization expense consists of depreciation and amortization of long-lived intangible assets, patents, leasehold improvements, and equipment. Depreciation and amortization expense decreased to \$0.1 million and \$0.3 million for the three and six months ended June 30, 2019, respectively, from \$1.0 million and \$2.0 million for the three and six months ended June 30, 2018, respectively, primarily due to the impairment of the intangible assets in the fourth quarter of 2018.

Restructuring Expenses

Restructuring expenses were zero for the three and six months ended June 30, 2019 and \$1.2 million and \$2.0 million, for the three and six months ended June 30, 2018, respectively. Restructuring costs for the three and six months ended June 30, 2018 related to our recapitalization and debt restructuring.

Interest Expense

Interest expense is related to interest incurred from our debt instruments. Interest expense was \$1.3 million and \$3.3 million for the three and six months ended June 30, 2019, respectively, compared to \$2.8 million and \$6.4 million for the three and six months ended June 30, 2018, respectively. These decreases were due to amendments to our credit agreement resulting in lower effective interest rates on our outstanding debt during the three and six months ended June 30, 2019 compared to the prior year periods.

Liquidity and Capital Resources

Working Capital

Since our inception, we have financed our operations through operating cash flows, the private placement of equity securities and convertible debt, an equity credit facility, a debt facility, a common stock rights offering, and other debt transactions.

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents	\$ 7,318	\$ 6,797
Accounts receivable, net	8,565	9,990
Inventories, net	15,828	17,301
Total current assets	32,303	34,677
Accounts payable	3,194	6,465
Accrued liabilities	5,867	5,150
Total current liabilities	9,930	12,051
Total working capital	22,373	22,626
Long-term debt, less issuance costs	73,831	77,939

Long-term debt, less issuance costs consists of long-term debt due to the lenders under our Second Amended and Restated Credit Agreement as of June 30, 2019 and under our Prior Credit Agreement as of December 31, 2018. The execution of the Second Amended and Restated Credit Agreement during the first quarter of 2019 and the changes to our credit facility reflected therein, including the interest rate relief and extended maturity, along with the additional availability, were determined to be and accounted for as a debt extinguishment under GAAP, resulting in the write-off of the original loan and associated issuance costs. The present value of the new loan was determined to be \$72.7 million as of March 31, 2019 with the Company recording an increase to additional paid-in capital of \$7.3 million. Because of the related party affiliation between the Company and our credit facility lenders, this debt extinguishment resulted in an increase in additional paid-in capital rather than flowing through our condensed consolidated statements of operations as a gain on extinguishment. As of June 30, 2019, our long-term debt, less issuance costs was \$73.8 million. While our long-term debt, less issuance costs balance was \$73.8 million as of June 30, 2019 under GAAP, the Company owes a principal balance of \$55.8 million plus accrued PIK interest of \$29.0 million as of June 30, 2019. Assuming no debt payments are made, our long-term debt, less issuance costs line item will continue to increase until the loan's March 31, 2021 maturity date. See Note 6, "Debt" to the condensed consolidated financial statements.

Accounts receivable invoices totaling \$1.0 million, which were held by two customers and reserved for during prior periods, were written off against both the trade accounts receivable and the allowance for doubtful accounts during the quarter ended June 30, 2019.

Cash Flows

Net cash provided by operating activities for the first six months of 2019 was \$1.0 million driven primarily from decreases in net loss, depreciation and amortization and non-cash interest, partially offset by an increase in accounts payable. For the comparable period of 2018, net cash provided by operating activities was \$0.3 million.

Net cash used in investing activities for the first six months of 2019 and 2018 was \$0.05 million and \$0.3 million, respectively, primarily representing purchases of property and equipment.

Net cash used in financing activities was \$0.4 million for the first six months of 2019 compared to net cash provided by financing activities of \$3.1 million for the first six months of 2018. The net cash provided during the prior year period was due to proceeds from a private placement, partially offset by costs associated therewith and the Company's debt conversion.

Credit Facility

On March 29, 2019, we entered into the Second Amended and Restated Credit Agreement with the Investors, which amended and restated the Prior Credit Agreement dated as of July 27, 2015, among the parties thereto, and as subsequently amended through the Twenty-Fifth Amendment to the Prior Credit Agreement.

The Second Amended and Restated Credit Agreement amended the Prior Credit Agreement to provide that we may request term loans with the Investors in an amount equal to the remaining commitment for additional delayed draw loans, which was approximately \$2.2 million as of the date of the Second Amended and Restated Credit Agreement, and request additional term loans in an aggregate amount of up to \$10.0 million, the amount of each loan draw to be subject to our production of a thirteen-week cash flow forecast that is approved by the Investors and which shows a projected cash balance for the following two-week period of less than \$1.5 million, as well as the satisfaction (or waiver in writing by each Investor) of conditions precedent, including closing certificate, delivery of budget, and other satisfactory documents. In addition, the Second Amended and Restated Credit Agreement provides that (i) no interest will accrue on the Loans under the Second Amended and Restated Credit Agreement from and after January 1, 2019, until March 31, 2020; (ii) beginning April 1, 2020, through the maturity date of the Second Amended and Restated Credit Agreement, interest payable in cash will accrue on the Loans under the Credit Agreement at a rate per annum equal to the sum of (a) 10.00% plus (b) the higher of (x) the LIBO Rate (as such term is defined in the Second Amended and Restated Credit Agreement) and (y) 2.3125%; (iii) the maturity date of the Loans is March 31, 2021; (iv) the Consolidated Senior Leverage Ratio and Consolidated EBITDA (as such terms were defined in the Prior Credit Agreement) financial covenants were deleted and a new Revenue Base (as such term is defined in the Second Amended and Restated Credit Agreement) financial covenant was added; and (v) the key person event default provision was revised to refer specifically to certain recently-hired executive officers of the Company. Under the terms of the Prior Credit Agreement, we were required to comply with a minimum liquidity covenant, a consolidated leverage ratio covenant, and a minimum consolidated EBITDA covenant. We were in compliance with all covenants under the Second Amended and Restated Credit Agreement as of June 30, 2019 and under the Prior Credit Agreement as of December 31, 2018. As of June 30, 2019, there was \$12.2 million in unused availability under the Second Amended and Restated Credit Agreement.

Cash Requirements

We believe that our June 30, 2019 cash and cash equivalents of \$7.3 million, together with the availability of \$12.2 million under our new Second Amended and Restated Credit Agreement, will be sufficient to meet our anticipated cash requirements for at least 12 months. However, we may require additional funds to fund our future operations and business strategy. Accordingly, there is no assurance that we will not need or seek additional funding prior to such time. We may elect to raise additional funds even before we need them if market conditions for raising additional capital are favorable. We may seek to raise additional funds through various sources, such as equity and debt financings, additional debt restructurings or refinancings, or through strategic collaborations and license agreements. We can give no assurances that we will be able to secure additional sources of funds to support our operations, or if such funds are available to us, that such additional financing will be sufficient to meet our needs or on terms acceptable to us. This is particularly true if economic and market conditions deteriorate.

To the extent that we raise additional capital through the sale of equity or convertible debt securities or the restructuring or refinancing of our debt, the interests of our current stockholders may be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of our current stockholders. If we issue preferred stock, it could affect the rights of our stockholders or reduce the value of our common stock. In particular, specific rights granted to future holders of preferred stock may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, sinking fund provisions, and restrictions on our ability to merge with or sell our assets to a third party. Additional debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures, or declaring dividends. Prior to raising additional equity or debt financing, we must obtain the consent of the Investors, and no assurance can be provided that the Investors would provide such consent, which could limit our ability to raise additional financing.

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 common stock.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit losses: Measurement of Credit Losses on Financial Instruments*, which amends certain provisions of ASC 326, *Financial Instruments—Credit Loss*. The ASU changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held to maturity debt securities, loans, and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*. The amendments in the update provide an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. The effective date and transition methodology for the amendment have not changed. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual periods, and will be applied as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period for which the guidance is effective. We currently do not expect that the adoption of these provisions will have a material effect on our consolidated financial position, results of operations, or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*, to simplify the accounting for goodwill impairment. The update removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The ASU is effective for annual reporting periods beginning after December 15, 2019, but early adoption is permitted. We are currently evaluating this update to determine the full impact of its adoption but do not expect this accounting standards update to have a material impact on our consolidated financial position, results of operations, or cash flows.

Critical Accounting Estimates

Management’s discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions for the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and any such differences may be material.

There have been no changes in our critical accounting estimates for the six months ended June 30, 2019 as compared to the critical accounting estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2019. Based upon that evaluation, our principal executive and financial officer concluded that as of June 30, 2019, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 13, 2018, a complaint was filed by RSB Spine, LLC, against Xtant Medical Holdings, Inc., which claims that some of our products, including the Irix-ATM Lumbar Integrated Fusion System and the Irix-CTM Cervical Integrated Fusion System, infringe certain of RSB Spine's patents. The complaint seeks an adjudication of infringement, an injunction against future infringement, unspecified damages for infringement, a finding that such infringement is willful, and treble damages for such willful infringement. This action was brought in the United States District Court for the District of Delaware. We filed an answer and affirmative defenses to the complaint on March 29, 2019, denying the allegations of infringement and seeking dismissal of RSB Spine's claims and requested relief. The Court entered a scheduling order on May 9, 2019, scheduling trial for no sooner than June 21, 2021. We intend to vigorously defend the claims in this action. There can be no assurance that the resolution of this matter will not have a material adverse effect on our business, financial condition, or results of operations.

On August 10, 2017, a civil suit complaint was filed against Xtant in the United States District Court, District of Nevada, by Axis Spine NV, LLC ("Axis"), Case No. 2:17-CV-02147-APG-VCF. The complaint alleges breach of contract, breach of the implied covenant of good faith and fair dealing, and tortious interference with prospective economic advantage with respect to an alleged medical device distribution relationship between the parties. Specifically, Axis alleges that Xtant owes payments to Axis for its medical device distributions. Axis seeks relief in the form of damages in an amount in excess of \$1.0 million. On March 6, 2019, the Court granted Xtant's motion for summary judgment on Axis's claims for breach of contract and breach of the covenant of good faith and fair dealing but denied Xtant's motion for summary judgment on Axis's unjust enrichment claim. In June 2019, the parties entered into an agreement to settle this dispute. This agreement resulted in a settlement payment by Xtant in an amount that is not material to our financial position or results of operations.

In October 2016, Phoenix Surgical, Inc., a former distributor, sued Xtant for its alleged participation in a scheme orchestrated by a former Phoenix Surgical sales representative to divert sales away from Phoenix Surgical to another entity. On April 26, 2019, the parties entered into a confidential settlement agreement which resolved the dispute and resulted in a settlement payment by Xtant in an undisclosed amount that is not material to our financial position and did not have a material effect on our results of operations.

In addition, we are subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted from time to time. These matters arise in the ordinary course and conduct of our business and may include, for example, commercial, product liability, intellectual property, and employment matters. We intend to continue to defend the Company vigorously in such matters and when warranted, take legal action against others.

ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Equity Securities

As previously disclosed, on March 29, 2019, we entered into the Second Amended and Restated Credit Agreement with the Investors. As a condition to the effectiveness of the Second Amended and Restated Credit Agreement, on April 1, 2019, the Company issued warrants to purchase an aggregate of 1.2 million shares of our common stock to the Investors with an exercise price of \$0.01 per share and an expiration date of April 1, 2029. See Note 6, "Debt," to our condensed consolidated financial statements for more information. The issuance of the 2019 Warrants was exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof and/or Regulation D promulgated thereunder. The issuance of any shares of our common stock in connection with the exercise of the 2019 Warrants is also expected to be exempt from the registration requirements of the Securities Act, pursuant to Section 4(a)(2) thereof and/or Regulation D promulgated thereunder.

Purchases of Equity Securities by the Company

We did not purchase any shares of our common stock or other equity securities of our Company during the quarter ended June 30, 2019.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Appointment of Greg Jensen as Non-Interim Chief Financial Officer and Execution of Amended and Restated Employment Agreement

Effective as of the release of the Company's second quarter 2019 financial results, the Board of Directors of Xtant Medical Holdings, Inc. (the "Board") approved the appointment of Greg Jensen as non-interim Chief Financial Officer, and on August 8, 2019, the Company and Greg Jensen executed an amended and restated employment agreement pursuant to which Mr. Jensen will serve as Vice President, Finance and Chief Financial Officer, and in consideration thereof, will receive, in addition to other customary compensation, certain severance and change in control benefits. The severance provisions provide that in the event that Mr. Jensen's employment is terminated without "cause" (as defined in the agreement), Mr. Jensen will be entitled to receive a severance payment equal to 12 months base salary payable as salary continuation payments, a prorated bonus for the year of termination if earned pursuant to the terms of the bonus plan, and reimbursement of COBRA payments for 12 months. In the event that Mr. Jensen's employment is terminated within 12 months following a "change in control" or should he resign for "good reason" (as such terms are defined in the agreement) within that period, then his 12 months base salary will be paid to him in a lump-sum payment. To be eligible to receive these payments, Mr. Jensen will be required to execute and not revoke a release of claims.

The foregoing description of Mr. Jensen's amended and restated employment agreement is qualified in its entirety by reference to the agreement, which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

2019 Bonus Plan

On July 31, 2019, the Board, upon recommendation of the Compensation Committee, formally approved the material terms of a discretionary bonus plan for 2019 applicable to the Company's executive officers and certain other participants, which annual bonuses are tied closely to the Company's financial performance for the fiscal year ended December 31, 2019 (the "2019 Bonus Plan"). Under the 2019 Bonus Plan, each participant will be eligible to earn a discretionary annual bonus based on the Company's achievement in 2019 of performance goals relating to total sales, hardware sales, adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, as adjusted for certain non-recurring items) and free cash flow (cash from operations minus capital expenditures). The performance goals will be weighted as follows for the Company's executive officers:

Performance Criteria	Weighting
Total sales	25%
Hardware sales	15%
Adjusted EBITDA	40%
Free cash flow	10%
Board discretion	10%

The table below sets forth the target annual bonus opportunity, expressed as a percentage of annual base salary, for each executive. Mr. Jensen's bonus will be prorated to reflect his February 11, 2019 start date.

Executive and Position	Target Annual Bonus Opportunity	2019 Base Salary
Greg Jensen <i>Vice President, Finance and Chief Financial Officer</i>	50% of Base Salary	\$ 400,000
Ronald G. Berlin <i>Vice President, Chief Operations Officer and General Manager</i>	50% of Base Salary	\$ 400,000
Kevin D. Brandt <i>Chief Commercial Officer</i>	50% of Base Salary	\$ 415,000

The determination of bonuses under the 2019 Bonus Plan will be in the sole discretion of the Board or the Compensation Committee and, unless otherwise agreed upon by the Company in writing, will only be paid to a participant if he or she remains an employee of the Company or one of its subsidiaries on the payment date, which payment date will be determined by the Board or the Compensation Committee at a later date and is contemplated to be after the issuance of the Company's financial statements for 2019.

ITEM 6. EXHIBITS

The following exhibits are being filed or furnished with this Quarterly Report on Form 10-Q:

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 13, 2018 (SEC File No. 0-34941) and incorporated by reference herein).</u>
3.2	<u>Second Amended and Restated Bylaws (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 16, 2018 (SEC File No. 0-34941) and incorporated by reference herein).</u>
4.1	<u>Warrant dated as of April 1, 2019 issued by Xtant Medical Holdings, Inc. to ROS Acquisition Offshore LP (filed as Exhibit 4.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 (SEC File No. 0-34941) and incorporated by reference herein).</u>
4.2	<u>Warrant dated as of April 1, 2019 issued by Xtant Medical Holdings, Inc. to OrbiMed Royalty Opportunities II, LP (filed as Exhibit 4.12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 (SEC File No. 0-34941) and incorporated by reference herein).</u>
10.1	<u>Amended and Restated Employment Agreement effective as of August 8, 2019 between Xtant Medical Holdings, Inc. and Greg Jensen (filed herewith)</u>
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer and Chief Financial Officer (filed herewith)</u>
32.1	<u>Section 1350 Certification of Chief Executive Officer and Chief Financial Officer (furnished herewith)</u>
101	The following materials from Xtant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Condensed Consolidated Balance Sheets, (ii) the unaudited Condensed Consolidated Statements of Operations, (iii) the unaudited Condensed Consolidated Statements of Equity (Deficit), (iv) the unaudited Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements (filed herewith)

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.

XTANT MEDICAL HOLDINGS, INC.

Date: August 8, 2019

By: /s/ Greg Jensen

Name: Greg Jensen

Title: Vice President, Finance and Chief Financial Officer
(principal executive, financial and accounting officer and duly
authorized person)



AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (“Agreement”) is entered into by and between Xtant Medical Holdings, Inc. (together with its subsidiaries, the “Company”), and Greg Jensen, an Individual (“Employee”), and is effective as of August 8, 2019 (“Effective Date”). The Company and Employee are sometimes referred to as the “Parties” or “Party” in this Agreement, and the Company may designate a subsidiary to be the employer of the Employee.

This Amended and Restated Agreement amends and replaces in its entirety the Employment Agreement effective as of February 11, 2019 between the Company and Employee. In consideration of the mutual promises, covenants and agreements contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. EMPLOYMENT AND DUTIES.

A. Job Title and Responsibilities. Employee hereby agrees to be employed as Vice President, Finance and Chief Financial Officer. Employee’s title and responsibilities may change during the course of Employee’s employment with Employer, but the terms of this Agreement shall remain in full force and effect regardless of any change in Employee’s title or responsibilities.

B. Full-Time Best Efforts. Employee agrees to devote Employee’s full professional time and attention to the business of the Company (and its subsidiaries, affiliates, or related entities) and the performance of Employee’s obligations under this Agreement, and will at all times faithfully, industriously and to the best of Employee’s ability, experience and talent, perform all of Employee’s obligations hereunder. The Employee shall not, at any time during Employee’s employment by the Company, directly or indirectly, act as a partner, officer, director, consultant, employee, or provide services in any other capacity to any other business enterprise that conflicts with the Company’s business or Employee’s duty of loyalty to the Company.

C. At-Will Employment. Employee acknowledges that his employment remains at-will and that as an at-will employee, Employee’s services may be terminated with or without cause by the Company or by the Employee at any time upon sixty (60) days’ written notice to the other Party of any termination of employment.

D. Duty of Loyalty. Employee acknowledges that during Employee’s employment with the Company, Employee has participated in and will participate in relationships with existing and prospective clients, customers, partners, suppliers, service providers and vendors of the Company that are essential elements of the Company’s goodwill. The parties acknowledge that Employee owes the Company a fiduciary duty to conduct all affairs of the Company in accordance with all applicable laws and the highest standards of good faith, trust, confidence and candor, and to endeavor, to the best of Employee’s ability, to promote the best interests of the Company.

E. Conflict of Interest. Employee agrees that while employed by the Company, and except with the advance written consent of a duly authorized officer of the Company, Employee will not enter into, on behalf of the Company, or cause the Company or any of its affiliates to enter into, directly or indirectly, any transactions with any business organization in which Employee or any member of Employee’s immediate family may be interested as a shareholder, partner, member, trustee, director, officer, employee, consultant, lender or guarantor or otherwise; provided, however, that nothing in this Agreement shall restrict transactions between the Company and any company whose stock is listed on a national securities exchange or actively traded in the over-the-counter market and over which Employee does not have the ability to control or significantly influence policy decisions.

Employment Agreement: Jensen, Greg

Please initial each page: ____

2. COMPENSATION.

A. Base Pay. The Company agrees to pay Employee gross annual compensation of \$400,000 ("Base Salary"), less usual and customary withholdings, which shall be payable in arrears in accordance with the Company's customary payroll practices. The Base Salary will be subject to normal periodic review, and such review will consider Employee's contributions to the Company and the Company's overall performance.

B. Bonus and Incentive Compensation. Employee shall be eligible for bonus and incentive-based compensation approved by the Board (or a committee thereof) from time to time. The target bonus compensation will be 50% of Employee's Base Salary, which bonus shall be contingent upon the achievement of performance objectives as established by the Board (or a committee thereof) and communicated to Employee. Such bonus and incentive compensation shall be less all tax withholdings and other applicable deductions the Company reasonably determines are required to be made and shall be paid in accordance with the bonus and incentive compensation plan documents adopted by the Company. Employee must remain continuously employed by the Company through the date bonus compensation is paid to be eligible to receive such bonus compensation.

C. Benefits. During Employee's employment, Employee will be eligible to participate in the Company's benefit programs, as summarized and as governed by any plan documents concerning such benefits. Employee acknowledges that the Company may amend, modify or terminate any of its benefit plans or programs at any time and for any reason. Employee will be eligible for 20 days of paid vacation per year, subject to the Company's carryover policy for unused vacation in effect from time to time.

D. Clawback. Employee agrees that any compensation or benefits provided by the Company under this Agreement or otherwise will be subject to recoupment or clawback by the Company under any applicable clawback or recoupment policy of the Company as may be in effect from time-to-time or as required by applicable law, regulation or stock exchange listing requirement.

3. CONFIDENTIAL INFORMATION.

A. I understand that during my employment relationship with the Company, the Company intends to provide me with information, including Confidential Information (as defined herein), without which I would not be able to perform my duties to the Company. I agree, at all times during the term of my employment relationship and thereafter, to hold in strictest confidence, and not to use, except for the benefit of the Company to the extent necessary to perform my obligations to the Company under the relationship, and not to disclose to any person, firm, corporation or other entity, without written authorization from the Company in each instance, any Confidential Information that I obtain, access or create during the term of the relationship, whether or not during working hours, until such Confidential Information becomes publicly and widely known and made generally available through no wrongful act of mine or of others who were under confidentiality obligations as to the item or items involved. I understand that "Confidential Information" means information and physical material not generally known or available outside the Company and information and physical material entrusted to the Company by third parties. "Confidential Information" includes, without limitation, Assigned Inventions, technical data, trade secrets, marketing ideas or plans, research, product or service ideas or plans, business strategies, investments, investment opportunities, potential investments, market studies, industry studies, historical financial data, financial information and results, budgets, identity of Clients, forecasts (financial or otherwise), possible or pending transactions, customer lists and domain names, price lists, and pricing methodologies.

B. At all times, both during my employment and after its termination, I will keep and hold all such Confidential Information in strict confidence and trust. I will not use or disclose any Confidential Information without the prior written consent of the Company, except as may be necessary to perform my duties as an employee of the Company for the benefit of the Company, or as is required by valid legal process of which the Company is notified. Upon termination of my employment with the Company, I will promptly deliver to the Company all documents and materials of any nature pertaining to my work with the Company. I will not take with me any documents or materials or copies thereof containing any Confidential Information. I shall not remove any documents, writings, computer files or programs or other media containing Confidential Information from the premises or possession of the Company unless I have obtained express authorization in writing by the Company to do so; provided, that I may take such material to my residence or on business trips as may be necessary to perform my duties as an employee of the Company and for the benefit of the Company as long as such material is returned to the premises and possession of the Company.

C. I agree not to infringe the copyright of the Company, its Customers or third parties (including, without limitation, my previous employer, customers, etc.) by unauthorized or unlawful copying, modifying or distributing of copyrighted material, including plans, drawings, reports, financial analyses, market studies, computer software and the like.

4. COVENANT NOT TO COMPETE.

A. Non-competition Covenant. Employee agrees that during the Restricted Period (as defined below), Employee shall not, directly or indirectly within the Territory (as defined below): (i) personally, by agency, as an employee, independent contractor, consultant, officer, director, manager, agent, associate, investor, or by any other artifice or device, engage in any Competitive Business (as defined below), (ii) assist others, including but not limited to employees of the Company, to engage in any Competitive Business, or (iii) own, purchase, finance, organize or take preparatory steps to own, purchase, finance, or organize a Competitive Business.

B. Definitions.

1. "Competitive Business" means (i) any person, entity or organization which is engaged in or about to become engaged in research on, consulting regarding, or development, production, marketing or selling of any product, process, technology, device, invention or service which resembles, competes with or is intended to resemble or compete with a product, process, technology, device, invention or service under research or development or being promoted marketed, sole or serviced by the Company; or (ii) any other line of business that was conducted or proposed to be conducted by the Company or any affiliate, successor or related entity at any time during the term of Employee's employment with the Company.

2. "Territory" means the United States of America.

3. "Restricted Period" means the period of Employee's employment with the Company and for twelve (12) months immediately following the cessation of his/her employment (regardless of the reason or circumstances of that separation of employment) with the Company.

5. NON-SOLICITATION AND NON-INTERFERENCE COVENANTS.

A. Non-solicitation of Employees and Others. During the Restricted Period, Employee shall not, directly or indirectly, solicit, recruit, or induce, or attempt to solicit, recruit or induce any employee, consultant, independent contractor, vendor, supplier, or agent to (i) terminate or otherwise adversely affect his or her employment or other business relationship (or prospective employment or business relationship) with the Company, or (ii) work for Employee or any other person or entity, other than the Company or its affiliates or related entities.

B. Non-solicitation of Customers. During the Restricted Period, Employee shall not, directly or indirectly, solicit, recruit, or induce any Customer (as defined below) for the purpose of (i) providing any goods or services related to a Competitive Business, or (ii) interfering with or otherwise adversely affecting the contracts or relationships, or prospective contracts or relationships, between the Company (including any related or affiliated entities) and such Customers. "Customer" means a person or entity with which Employee had contact or about whom Employee gained information while an Employee of the Company, and to which the Company was selling or providing products or services, was in active negotiations for the sale of its products or services, or was otherwise doing business as of the date of the cessation of Employee's employment with the Company or for whom the Company had otherwise done business within the twelve (12) month period immediately preceding the cessation of Employee's employment with the Company.

6. ACKNOWLEDGEMENTS. Employee acknowledges and agrees that:

A. The geographic and duration restrictions contained in Sections 4 and 5 of this Agreement are fair, reasonable, and necessary to protect the Company's legitimate business interests and trade secrets, given the geographic scope of the Company's business operations, the competitive nature of the Company's business, and the nature of Employee's position with the Company;

B. Employee's employment creates a relationship of confidence and trust between Employee and the Company with respect to the Confidential Information, and Employee will have access to Confidential Information (including but not limited to trade secrets) that would be valuable or useful to the Company's competitors;

C. The Company's Confidential Information is a valuable asset of the Company, and any violation of the restrictions set forth in this Agreement would cause substantial injury to the Company;

D. The restrictions contained in this Agreement will not unreasonably impair or infringe upon Employee's right to work or earn a living after Employee's employment with the Company ends, but Employee is prepared for the possibility that his/her standard of living may be reduced during the Restricted Period and assumes and accepts any risk associated with that possibility; and

E. This Agreement is a contract for the protection of trade secrets under applicable law and is intended to protect the Confidential Information (including trade secrets) identified above.

7. **“BLUE PENCIL” AND SEVERABILITY PROVISION.** If a court of competent jurisdiction declares any provision of this Agreement invalid, void, voidable, or unenforceable, the court shall reform such provision(s) to render the provision(s) enforceable, but only to the extent absolutely necessary to render the provision(s) enforceable and only in view of the Parties’ express desire that the Company be protected to the greatest possible extent under applicable law from improper competition and the misuse or disclosure of trade secrets and Confidential Information. To the extent such a provision (or portion thereof) may not be reformed so as to make it enforceable, it may be severed and the remaining provisions shall remain fully enforceable.

8. INVENTIONS.

A. Inventions Retained and Licensed. Attached as Exhibit A is a list describing all inventions and information created, discovered or developed by Employee, whether or not patentable or registrable under patent, copyright or similar statutes, made or conceived or reduced to practice or learned by Employee, either alone or with others before Employee’s employment with the Company (“Prior Inventions”), which belong in whole or in part to Employee, and which are not being assigned by Employee to the Company. Employee represents that Exhibit A is complete and contains no confidential or confidential information belonging to a person or entity other than Employee. Employee acknowledges and agrees that Employee has no rights in any Inventions (as that term is defined below) other than the Prior Inventions listed on Exhibit A. If there is nothing identified on Exhibit A, Employee represents that there are no Prior Inventions as of the time of signing this Agreement. Employee shall not incorporate, or permit to be incorporated, any Prior Invention owned by Employee or in which he/she has an interest in a Company product, process or machine without the Company’s prior written consent. Notwithstanding the foregoing, if, in the course of Employee’s employment with the Company, Employee directly or indirectly incorporates into a Company product, process or machine a Prior Invention owned by Employee or in which Employee has an interest, the Company is hereby granted and shall have a non-exclusive, royalty-free, irrevocable, perpetual, world-wide license to make, have made, modify, use, create derivative works from and sell such Prior Invention as part of or in connection with such product, process or machine.

B. Assignment of Inventions. Employee shall promptly make full, written disclosure to the Company, will hold in trust for the sole right and benefit of the Company, and hereby irrevocably transfers and assigns, and agrees to transfer and assign, to the Company, or its designee, all his/her right, title and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements, designs, discoveries, ideas, trademarks (and all associated goodwill), mask works, or trade secrets, whether or not they may be patented or registered under copyright or similar laws, which Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during Employee’s employment by the Company (the “Inventions”). Employee further acknowledges that all original works of authorship which are made by Employee (solely or jointly with others) within the scope of and during the period of his/her employment with the Company and which may be protected by copyright are “Works Made For Hire” as that term is defined by the United States Copyright Act. Employee understands and agrees that the decision whether to commercialize or market any Invention developed by Employee solely or jointly with others is within the Company’s sole discretion and the Company’s sole benefit and that no royalty will be due to Employee as a result of the Company’s efforts to commercialize or market any such invention.

Employee recognizes that Inventions relating to his or her activities while working for the Company and conceived or made by Employee, whether alone or with others, within one (1) year after cessation of Employee's employment, may have been conceived in significant part while employed by the Company. Accordingly, Employee acknowledges and agrees that such Inventions shall be presumed to have been conceived during Employee's employment with the Company and are to be, and hereby are, assigned to the Company unless and until Employee has established the contrary.

The requirements of this Section 8B do not apply to any intellectual property for which no equipment, supplies, facility or trade secret information of the Company was used, and which was developed, entirely on the Employee's own time, and (i) which does related (x) directly to the Company's business or (y) to the Company's actual or demonstrably anticipated research and development or (ii) which does not result from any work the Employee performed for the Company.

C. Maintenance of Records. Employee agrees to keep and maintain adequate and current written records of all Inventions made by Employee (solely or jointly with others) during his/her employment with the Company. The records will be in the form of notes, sketches, drawings and any other format that may be specified by the Company. The records will be available to and remain the sole property of the Company at all times.

D. Patent, Trademark and Copyright Registrations. Employee agrees to assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's rights in the Inventions and any copyrights, patents, trademarks, service marks, mask works, or any other intellectual property rights in any and all countries relating thereto, including, but not limited to, the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments the Company deems necessary in order to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns, and nominees the sole and exclusive rights, title, and interest in and to such inventions, and any copyrights, patents, trademarks, service marks, mask works, or any other intellectual property rights relating thereto. Employee further agrees that his/her obligation to execute or cause to be executed, when it is in his/her power to do so, any such instrument or paper shall continue after termination or expiration of this Agreement of the cessation of his/her employment with the Company. If the Company is unable because of Employee's mental or physical incapacity or for any other reason to secure Employee's signature to apply for or to pursue any application for any United States or foreign patents, trademarks or copyright registrations covering inventions or original works of authorship assigned to the Company as above, then Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Employee's agent and attorney-in-fact to act for and in his/her behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters, patent, trade marks or copyright registrations thereon with the same legal force and effect as if executed by Employee; this power of attorney shall be a durable power of attorney which shall come into existence upon Employee's mental or physical incapacity.

9. SURVIVAL AND REMEDIES. Employee's obligations of nondisclosure, non-solicitation, non-interference, and non-competition under this Agreement shall survive the cessation of Employee's employment with the Company and shall remain enforceable in accordance with the terms thereof. In addition, Employee acknowledges that upon a breach or threatened breach of any obligation of nondisclosure, non-solicitation, non-interference, or non-competition of this Agreement, the Company will suffer irreparable harm and damage for which money alone cannot fully compensate the Company. Employee therefore agrees that upon such breach or threat of imminent breach of any such obligation, the Company shall be entitled to seek a temporary restraining order, preliminary injunction, permanent injunction or other injunctive relief, without posting any bond or other security, barring Employee from violating any such provision. This Section shall not be construed as an election of any remedy, or as a waiver of any right available to the Company under this Agreement or the law, including the right to seek damages from Employee for a breach of any provision of this Agreement and the right to require Employee to account for and pay over to the Company all profits or other benefits derived or received by the Employee as the result of such a breach, nor shall this Section be construed to limit the rights or remedies available under state law for any violation of any provision of this Agreement.

10. RETURN OF COMPANY PROPERTY. All devices, records, reports, data, notes, compilations, lists, proposals, correspondence, specifications, equipment, drawings, blueprints, manuals, DayTimers, planners, calendars, schedules, discs, data tapes, financial plans and information, or other recorded matter, whether in hard copy, magnetic media or otherwise (including all copies or reproductions made or maintained, whether on the Company's premises or otherwise), pertaining to Employee's work for the Company, or relating to the Company or the Company's Confidential Information, whether created or developed by the Employee alone or jointly during his/her employment with the Company, are the exclusive property of the Company. Employee shall surrender the same (as well as any other property of the Company) to the Company upon its request or promptly upon the cessation of employment. Upon the separation of Employee's employment, he/she agrees to sign and deliver the "Termination Certificate" attached as Exhibit B, which shall detail all Company property that is surrendered upon separation of employment.

11. NO CONFLICTING AGREEMENTS OR IMPROPER USE OF THIRD-PARTY INFORMATION. During her/his employment with the Company, Employee shall not improperly use or disclose any confidential information or trade secrets of any former employer or other person or entity, and Employee shall not bring on to the premises of the Company any unpublished document or confidential information belonging to any such former employer, person or entity, unless consented to in writing by the former employer, person or entity. Employee represents that he/she has not improperly used or disclosed any confidential information or trade secrets of any other person or entity during the application process or while employed or affiliated with the Company. Employee also acknowledges and agrees that he/she is not subject to any contract, agreement, or understanding that would prevent Employee from performing his/her duties for the Company or otherwise complying with this Agreement. To the extent Employee violates this provision, or his/her employment with the Company constitutes a breach or threatened breach of any contract, agreement, or obligation to any third party, Employee shall indemnify and hold the Company harmless from all damages, expenses, costs (including reasonable attorneys' fees) and liabilities incurred in connection with, or resulting from, any such violation or threatened violation.

12. TERMINATION.

A. By Either Party. Either Party may terminate the Employee's at-will employment at any time with or without notice, and with or without cause. Except as provided in this Section 12, upon termination of employment, Employee shall only be entitled to Employee's accrued but unpaid Base Salary and other benefits earned under any Company-provided plans, policies and arrangements for the period preceding the effective date of the termination of employment.

B. Termination Without Cause. If the Company terminates Employee's employment without Cause (defined below), Employee shall be entitled to receive continuing severance pay at a rate equal to Employee's Base Salary, as then in effect, for twelve (12) months from the date of termination of employment, less all required tax withholdings and other applicable deductions, payable in accordance with the Company's standard payroll procedures, commencing on the effective date of a Separation Agreement and Release of claims against the Company that has not been revoked, in substantially the form of Exhibit C attached hereto, the timely execution and performance by Employee of which is specifically a condition to his receipt of any of the payments and benefits provided under this Section 12B; provided that (1) such Separation Agreement and Release shall be executed and be fully effective within sixty (60) days of the Employee's termination of employment; (2) the first payment shall include any amounts that would have been paid to Employee if payment had commenced on the date of termination of employment; and (3) Employee shall not be required to execute a release of any claims arising from the Company's failure to comply with its obligations under Section 12A. If Employee timely and effectively elects continuation coverage under the Company's group health plan pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") or similar state law, the Company will pay or reimburse the premiums for such coverage of Employee (and his dependents, as applicable) at the same rate it pays for active employees for a period for twelve (12) months from the date of termination of employment; provided that the Company's obligation to make such payments shall immediately expire if Employee ceases to be eligible for continuation coverage under COBRA or similar state law or otherwise terminates such coverage. Notwithstanding the foregoing, any of the foregoing payments due under this Section 12B shall commence within sixty (60) days of Employee's termination of employment, provided that if such sixty (60)-day period spans two (2) calendar years, payments shall commence in the latter calendar year. In addition to the foregoing and subject to Employee's execution of a Separation Agreement and Release of claims against the Company that has been executed and not revoked within any applicable rescission period that has expired within sixty (60) days of the Employee's termination of employment, Employee shall be entitled to the pro-rated amount of any unpaid bonus for the calendar year in which his termination of employment occurs, if earned pursuant to the terms thereof (except for the provision of remaining an employee through the date of payment thereof) and paid after the end of such calendar year but on or before March 15 of the following calendar year and in such manner as determined by the Board (or a committee thereof) in its sole discretion pursuant to the terms thereof.

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Please initial each page: ____

C. Termination Upon a Change in Control. If the Company or any successor in interest to the Company terminates Employee's employment without Cause in connection with or within twelve (12) months after a Change in Control (defined below) or if Employee terminates his employment for Good Reason (defined below) within twelve (12) months after a Change in Control, Employee shall be entitled to receive (i) his accrued but unpaid Base Salary and other benefits earned under any Company-provided plans, policies and arrangements for the period preceding the effective date of the termination of employment, and (ii) a lump-sum payment equal to one time Employee's Base Salary, as then in effect, less all tax withholdings and other applicable deductions the Company reasonably determines are required to be made, payable on the first regular payroll date after the effective date of a Separation Agreement and Release that has been executed and not revoked within any applicable rescission period that has expired within sixty (60) days of the Employee's termination of employment, in substantially the form of Exhibit C attached hereto, the execution and performance by Employee of which is specifically a condition to his receipt of any of the payments and benefits provided under this Section 12C; provided that Employee shall not be required to execute a release of any claims arising from the Company's failure to comply with its obligations under Section 12A. If Employee timely and effectively elects continuation coverage under the Company's group health plan pursuant to COBRA or similar state law, the Company will pay or reimburse the premiums for such coverage of Employee (and his dependents, as applicable) at the same rate it pays for active employees for a period for twelve (12) months from the date of termination of employment; provided that the Company's obligation to make such payments shall immediately expire if Employee ceases to be eligible for continuation coverage under COBRA or similar state law or otherwise terminates such coverage. Notwithstanding the previous provisions of this Section 12C, any payments due under this Section 12C shall commence within sixty (60) days of Employee's termination of employment, provided that if such sixty (60)-day period spans two calendar years, payments shall commence in the latter calendar year. In addition to the foregoing and subject to Employee's timely execution of a Separation Agreement and Release that has been executed and not revoked within any applicable rescission period that has expired within sixty (60) days of the Employee's termination of employment, Employee shall be entitled to the pro-rated amount of any unpaid bonus for the calendar year in which his termination of employment occurs, if earned pursuant to the terms thereof (except for the provision of remaining an employee through the date of payment thereof) and and paid after the end of such calendar year but on or before March 15 of the following calendar year and in such manner as determined by the Board (or a committee thereof) in its sole discretion pursuant to the terms thereof. The payments and benefits described in this Section 12C are in lieu of, and not in addition to, the payments and benefits described in Section 12B, it being understood by Employee that he shall be paid and receive only one set of severance payments and benefits.

D. Termination for Cause, Death or Disability, or Resignation. If Employee's employment with the Company terminates voluntarily by Employee other than for Good Reason pursuant to Section 12C above, for Cause by the Company or due to Employee's death or disability, then payments of compensation by the Company to Employee hereunder will terminate immediately (except as to amounts already earned).

E. Definitions.

1. "Cause." For all purposes under this Agreement, "Cause" is defined as (i) gross negligence or willful failure to perform Employee's duties and responsibilities to the Company; (ii) commission of any act of fraud, theft, embezzlement, financial dishonesty or any other willful misconduct that has caused or is reasonably expected to result in injury to the Company; (iii) conviction of, or pleading guilty or *nolo contendere* to, any felony or a lesser crime involving dishonesty or moral turpitude; or (iv) material breach by Employee of any of his obligations under this Agreement or any written agreement or covenant with the Company, including the policies adopted from time to time by the Company applicable to all employees.

2. "Good Reason." For purposes of Section 12.C. of this Agreement, "Good Reason" is defined as Employee's resignation within thirty (30) days following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following, without Employee's express written consent: (i) a material reduction of Employee's duties, authority, reporting level, or responsibilities, relative to Employee's duties, authority, reporting level, or responsibilities in effect immediately prior to such Change in Control; (ii) a material reduction in Employee's base compensation; or (iii) the Company's requiring of Employee to change the principal location at which Employee is to perform his services by more than fifty (50) miles. Employee will not resign for Good Reason without first providing the Company with written notice within thirty (30) days of the initial occurrence of the event that Employee believes constitutes "Good Reason" specifically identifying the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice during which such condition shall not have been cured.

3. "Change in Control." For all purposes under this Agreement, a "Change in Control" means a Change in Control, as defined in the Plan, that occurs after the date hereof; provided, that a liquidation, dissolution or winding up of the Company or change in the state of the Company's incorporation shall not constitute a Change in Control event for purposes of this Agreement.

F. No Other Benefits. In the event of a termination of Employee's employment with the Company, the provisions of this Section 12 are Employee's exclusive right to severance benefits and are in lieu of participation in any other severance policy or plan to which Employee might otherwise be entitled.

G. Termination from any Offices Held. Upon his termination of employment with the Company, Employee agrees that and any and all offices held, if applicable, shall be automatically terminated. Employee agrees to cooperate with the Company and execute any documents reasonably required by the Company or competent authorities to effect this provision.

13. GENERAL PROVISIONS.

A. Governing Law; Consent To Personal Jurisdiction. The laws of the State of Minnesota shall govern the Employee's employment and this Agreement without regard to conflict of laws principles. Employee hereby consents to the personal jurisdiction of the state courts located in Hennepin County, State of Minnesota, and the federal court sitting in Hennepin County, State of Minnesota, if that court otherwise possesses jurisdiction over the matter, for any legal proceeding concerning the Employee's employment or termination of employment, or arising from or related to this Agreement or any other agreement executed between the Employee and the Company.

B. Entire Agreement. This Agreement, together with the Exhibits hereto, sets forth this entire Agreement between the Company (and any of its related or affiliated entities, officers, agents, owners or representatives) and the Employee relating to the subject matter herein, and supersedes any and all prior discussions and agreements, whether written or oral, on the subject matter hereof, including without limitation that certain Employment Agreement effective as of February 11, 2019 between the Company and Employee. To the extent that this Agreement may conflict with the terms of another written agreement between the Employee and the Company, the terms of this Agreement will control.

C. Modification. No modification of or amendment to this Agreement will be effective unless in writing and signed by Employee and an authorized representative of the Company.

D. Waiver. The Company's failure to enforce any provision of this Agreement shall not act as a waiver of its ability to enforce that provision or any other provision. The Company's failure to enforce any breach of this Agreement shall not act as a waiver of that breach or any future breach. No waiver of any of the Company's rights under this Agreement will be effective unless in writing. Any such written waiver shall not be deemed a continuing waiver unless specifically stated, and shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

E. Successors and Assigns. This Agreement shall be assignable to, and shall inure to the benefit of, the Company's affiliates, subsidiaries, successors and assigns. Employee shall not have the right to assign his/her rights or obligations under this Agreement.

F. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be enforceable, and all of which together shall constitute one agreement. Signatures of the Parties that are transmitted in person or by facsimile or e-mail shall be accepted as originals.

G. Further Assurances. Employee agrees to execute any proper oath or verify any document required to carry out the terms of this Agreement.

H. Title and Headings. The titles, captions and headings of this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement.

I. Notices. All notices and communications that are required or permitted to be given under this Agreement shall be in writing and shall be sufficient in all respects if given and delivered in person, by electronic mail, by facsimile, by overnight courier, or by certified mail, postage prepaid, return receipt requested, to the receiving Party at the Party's addresses shown on the signature blocks below or to such other address as such Party may have given to the other by notice pursuant to this Section. Notice shall be deemed given (i) on the date of delivery in the case of personal delivery, electronic mail or facsimile, or (ii) on the delivery or refusal date as specified on the return receipt in the case of certified mail or on the tracking report in the case of overnight courier.

J. Section 409A. The amounts payable under this Agreement are intended to be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"). Any payments due under this Agreement on account of a termination of employment shall only be payable if the termination constitutes a "separation from service" within the meaning of Section 409A. To the extent that any such payments are determined to be subject to Section 409A, (i) the terms of this Agreement shall be interpreted to avoid incurring any penalties under Section 409A, (ii) any right to a series of installment payments is to be treated as a right to a series of separate payments, and (iii) any payments due to a "specified employee" of a publicly-traded company upon a separation from service shall be delayed until the first day of the seventh month following such separation from service. Notwithstanding the foregoing, in no event shall the Company be responsible for any taxes or penalties due under Section 409A.

14. EMPLOYEE'S ACKNOWLEDGMENTS. Employee acknowledges that he/she is executing this Agreement voluntarily and without duress or undue influence by the Company or anyone else and that Employee has carefully read this Agreement and fully understands the terms, consequences, and binding effect of this Agreement.

IN WITNESS WHEREOF, and intending to be legally bound, the parties have executed this Employment Agreement as of the date first written above.

EMPLOYEE

XTANT MEDICAL HOLDINGS, INC.

Print Name: Greg Jensen

Print Name: Ron Berlin

Signature: /s/ Greg Jensen

Signature: /s/ Ron Berlin

Date: August 8, 2019

Chief Operations Officer and General Manager

Date: August 8, 2019

Employment Agreement: Jensen, Greg

Please initial each page: ____

EXHIBIT A

LIST OF PRIOR INVENTIONS AND ORIGINAL WORKS OF AUTHORSHIP

IS A LIST ATTACHED? (PLEASE CHECK): _____ **YES** **NO**

NOTE: The following is a list of all Prior Inventions made, conceived, developed or reduced to practice by Employee prior to his/her employment with the Company. IF NO SUCH LIST IS ATTACHED, THAT MEANS EMPLOYEE IS NOT ASSERTING THE EXISTENCE OF ANY PRIOR INVENTIONS.

Employment Agreement: Jensen, Greg

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Please initial each page: _____

EXHIBIT B

TERMINATION CERTIFICATE

I hereby represent and certify that I have in all material respects complied with my obligations to the Company under the Employment Agreement between the Company and me to which the form of this Certificate is attached as Exhibit B.

I also represent that on or before my last day, I have specifically returned the following items:

Computer/laptop

Keys/access cards

Company credit card

Other equipment (please list) _____

Employment Agreement: Jensen, Greg

Please initial each page: ____

EXHIBIT C

FORM OF SEPARATION AGREEMENT AND RELEASE

This Separation Agreement ("Agreement") and the Release, which is attached and incorporated by reference as Exhibit A ("Release"), are made by and between Greg Jensen ("Employee"), and Xtant Medical Holdings, Inc., its affiliates, related or predecessor corporations, subsidiaries, successors and assigns ("Employer").

Employer and Employee (collectively, "Parties") wish to end their employment relationship in an honorable, dignified and orderly fashion. Toward that end, the Parties have agreed to separate according to the following terms.

IN CONSIDERATION OF THIS AGREEMENT, THE PARTIES AGREE AS FOLLOWS:

1. Termination. Employee's employment shall end on a date and time Employer shall determine ("Termination Date").

2. Consideration. Employer shall, (1) after receipt of a fully executed Agreement and Release; (2) after expiration of all applicable rescission periods; and (3) provided Employee complies with his obligations under this Agreement, provide Employee with separation benefits ("Consideration") in compliance with Employee's Employment Agreement ("Exhibit B");

3. Termination of Benefits. Except as otherwise provided by this Agreement, Employee's participation in Employer's employee benefits, bonus, and all other compensation or commission plans, will terminate on the Termination Date, unless otherwise provided by law, or benefit plan. Employee shall receive no compensation or benefits under such plans, except as specifically provided in Section 2 of this Agreement.

4. Execution of Agreement and Release of all Claims. Employee agrees to fully execute this Agreement, and the Release attached as Exhibit A, releasing any and all actual or potential claims which may have arisen at any time during his employment with or termination from employment with Employer. Employee's failure to execute this Agreement and/or Release, or any attempt to rescind this Agreement or that Release, shall terminate this Agreement, and the Parties' respective rights and obligations under this Agreement.

5. Satisfactory Performance and Cooperation During Transition. Employee shall fully cooperate with Employer in responding to questions, providing assistance and information, and defending against claims of any type, and will otherwise assist Employer as Employer may request through Employee's Termination Date ("Transition Period"). More specifically:

(a) During the Transition Period, Employee shall reasonably cooperate with Employer as it meets and otherwise communicates/works, with Employer's employees, customers, strategic relationships, consultants, and vendors on the transition of Employee's duties to other individuals. Employee shall be available, upon reasonable notice, during business hours to respond to Employer's questions and electronic communications. Employer shall reimburse Employee for Employee's reasonable out-of-pocket expenses (such reimbursement shall not include compensation for any such time or Employee's attorney's fees) incurred in accordance with this paragraph upon submission of receipts to Employer for such expenses.

EMPLOYEE INITIALS

(b) Employee shall not, absent Employer's specific approval, initiate any form of communication with Employer's employees, customers or strategic partners regarding Employer, Employer's products or Employees, and shall communicate with such persons in the above capacity only in conjunction with person(s) who Employer has designated to participate in such communications.

6. Stipulation of No Charges. Employee affirmatively represents that he has not filed nor caused to be filed any charges, claims, complaints, or actions against Employer before any federal, state, or local administrative agency, court, or other forum. Except as expressly provided in this Agreement or required by law, Employee acknowledges and agrees that he has been paid all wages, bonuses, compensation, benefits and other amounts that are due, with the exception of any vested right under the terms of a written ERISA-qualified benefit plan. Employee waives any right to any form of recovery or compensation from any legal action, excluding any action claiming this Agreement and Release violate the Age Discrimination in Employment Act ("ADEA") and/or the Older Workers Benefit Protection Act ("OWBPA"), filed or threatened to be filed by Employee or on Employee's behalf based on Employee's employment, terms of employment, or separation from, Employer. Employee understands that any Consideration paid to Employee pursuant to this Agreement may be deducted from any monetary award he may receive as a result of a successful ADEA and/or OWBPA claim or challenge to this Agreement and Release. This does not preclude Employee from eligibility for unemployment benefits, and does not preclude or obstruct Employee's right to file a Charge with the Equal Employment Opportunity Commission ("EEOC").

7. Return of Property. Employee shall return, on or before the Termination Date, all Employer property in Employee's possession or control, including but not limited to any drawings, orders, files, documents, notes, computers, laptop computers, fax machines, cell phones, smart devices, access cards, fobs, keys, reports, manuals, records, product samples, correspondence and/or other documents or materials related to Employer's business that Employee has compiled, generated or received while working for Employer, including all electronically stored information, copies, samples, computer data, disks, or records of such materials. Employee must return to Employer, and Employee shall not retain, any Employer property as previously defined in this section.

8. Agreement Not to Seek Future Employment. Employee agrees that he will never knowingly seek nor accept employment or a consulting/independent contractor relationship with Employer, nor any other entity owned by Xtant Medical Holdings, Inc., either directly or through a consulting firm.

9. Withholding For Amounts Owed to Employer. Execution of this Agreement shall constitute Employee's authorization for Employer to make deductions from Employee's Consideration, for Employee's indebtedness to Employer, or to repay Employer for unaccrued Paid Time Off already taken, employee purchases, wage or benefit overpayment, or other Employer claims against Employee, to the extent permitted by applicable law.

10. Non-Disparagement. Employee agrees that, unless it is in the context of an EEOC or other civil rights or other government enforcement agency investigation or proceeding, Employee will make no critical, disparaging or defamatory comments regarding Employer or any Released Party, as defined in the Release, in any respect or make any comments concerning the conduct or events which precipitated Employee's separation. Furthermore, Employee agrees not to assist or encourage in any way any individual or group of individuals to bring or pursue a lawsuit, charge, complaint, or grievance, or make any other demands against Employer or any Released Party. This provision does not prohibit Employee from participating in an EEOC or other civil rights or other government enforcement agency charge, investigation or proceeding, or from providing testimony or documents pursuant to a lawful subpoena or as otherwise required by law.

EMPLOYEE INITIALS

11. Compliance with Employment Agreement and Protection of Confidential Information. Employee agrees to comply with the provisions of and the restrictions set forth in his Employment Agreement (Exhibit B). Employee agrees to never divulge or use any trade secrets, confidential information, or other proprietary information of Employer which Employee obtained or to which Employee had access during his employment with Employer. For purposes of this latter obligation, "Confidential Information" means information that is not generally known and that is proprietary to Employer or that Employer is obligated to treat as proprietary. It includes, but is not limited to, information or data of Employer concerning its business, financial statements, patient contact information and data, products, plans, ideas, drawings, designs, concepts, inventions, discoveries, improvements, patent applications, know-how, trade secrets, prototypes, processes, techniques and other proprietary information. It does not include information that Employee can establish: (i) is already lawfully in the possession of Employee through independent means at the time of disclosure thereof; (ii) is or later becomes part of the public domain through no fault of Employee; (iii) is lawfully received by Employee from a third party having no obligations of confidentiality to Employer; or (iv) is required to be disclosed by order of a governmental agency or by a court of competent jurisdiction. Any information that Employee knows or should reasonably know is Confidential Information, or that Employer treats as Confidential Information, will be presumed to be Confidential Information.

12. Confidentiality. It is the intent of Employer and Employee that the terms of this Agreement be treated as Confidential, except to the extent this Agreement is required to be disclosed under applicable federal securities laws, as determined by Employer. Employee warrants that he has not and agrees that he will not in the future disclose the terms of this Agreement, or the terms of the Consideration to be paid by Employer to Employee as part of this Agreement, to any person other than his attorney, tax advisor, spouse, or representatives of any state or federal regulatory agency, who shall be bound by the same prohibitions against disclosure as bind Employee, and Employee shall be responsible for advising those individuals or agencies of this confidentiality provision. Employee shall not provide or allow to be provided to any person this Agreement, or any copies thereof, nor shall Employee now or in the future disclose the terms of this Agreement to any person, with the sole exception of communications with Employee's spouse, attorney and tax advisor, unless otherwise ordered to do so by a court or agency of competent jurisdiction.

13. Invalidity. In case any one or more of the provisions of this Agreement or Release shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement and Release will not in any way be affected or impaired thereby.

14. Non-Admissions. The Parties expressly deny any and all liability or wrongdoing and agree that nothing in this Agreement or the Release shall be deemed to represent any concession or admission of such liability or wrongdoing or any waiver of any defense.

EMPLOYEE INITIALS

15. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of Minnesota, without reference to its choice of law rules. Any action for breach of this Agreement shall be brought in the federal or state court, as appropriate, located in Minnesota.

16. Voluntary and Knowing Action. Employee acknowledges that he has had sufficient opportunity to review the terms of this Agreement and attached Release, and that he has voluntarily and knowingly entered into this Agreement. Employer shall not be obligated to provide any Consideration to Employee pursuant to this Agreement in the event Employee elects to rescind/revoke the Release. The Release becomes final and binding on the Parties upon expiration of the rescission/revocation period, provided Employee has not exercised his option to rescind/revoke the Release. Any attempt by Employee to rescind any part of the Release obligates Employee to immediately return all Consideration under this Agreement to counsel for Employer.

17. Legal Counsel and Fees. Except as otherwise provided in this Agreement and the Release, the Parties agree to bear their own costs and attorneys' fees, if any. Employee acknowledges that Employer, by this Agreement, has advised him that he may consult with an attorney of his choice prior to executing this Agreement and the Release. Employee acknowledges that he has had the opportunity to be represented by legal counsel during the negotiation and execution of this Agreement and the Release, and that he understands he will be fully bound by this Agreement and the Release.

18. Modification. This Agreement may be modified or amended only by a writing signed by both Employer and Employee.

19. Successors and Assigns. This Agreement is binding on and inures to the benefit of the Parties' respective successors and assigns.

20. Notices. Any notice, request or demand required or desired to be given hereunder shall be in writing and shall be addressed as follows:

If to Employer: Xtant Medical Holdings, Inc.
664 Cruiser Lane
Belgrade, MT 59714
Attention: Chief Executive Officer

With a copy to: Thomas A. Letscher
Fox Rothschild LLP
Campbell Mithun Tower - Suite 2000
222 South Ninth Street
Minneapolis, MN 55402-3338

If to Employee: Greg Jensen
1308 Summit Oaks Drive
Burnsville, MN 55337

EMPLOYEE INITIALS

Either party may change its address by giving the other Party written notice of its new address.

21. Waivers. No failure or delay by either Party in exercising any right or remedy under this Agreement will waive any provision of this Agreement.

22. Miscellaneous. This Agreement may be executed simultaneously in counterparts, each of which shall be an original, but all of which shall constitute but one and the same agreement.

23. Entire Agreement. Except for any continuing, post-employment, obligations under Exhibit B, or employment related Employer policy, or as otherwise provided in this Agreement, this Agreement, the attached Release, and Exhibit B are the entire Agreement between Employer and Employee relating to his employment and his separation. Employee understands that this Agreement and the Release cannot be changed unless it is done in writing and signed by both Employer and Employee.

EMPLOYEE

Greg Jensen

Dated: _____, 20____

XTANT MEDICAL HOLDINGS, INC.

By: _____

Its: _____

Dated: _____, 20____

EMPLOYEE INITIALS

RELEASE

- I. **Definitions.** I, Greg Jensen, intend all words used in this release (“Release”) to have their plain meanings in ordinary English. Technical legal words are not needed to describe what I mean. Specific terms I use in this Release have the following meanings:
- A. “I” “Me,” and “My” individually and collectively mean Greg Jensen and anyone who has or obtains or asserts any legal rights or claims through Me or on My behalf.
 - B. “Employer” as used in this Release, shall at all times mean Xtant Medical Holdings, Inc. and any affiliates, related or predecessor corporations, parent corporations or subsidiaries, successors and assigns.
 - C. “Released Party” or “Released Parties” as used in this Release, shall at all times mean Xtant Medical Holdings, Inc. and its affiliates, related or predecessor corporations, subsidiaries, successors and assigns, present or former officers, directors, shareholders, agents, employees, representatives and attorneys, whether in their individual or official capacities, and its affiliates, related or predecessor corporations, parent corporations or subsidiaries, successors and assigns, present or former officers, directors, shareholders, agents, employees, representatives and attorneys, whether in their individual or official capacities, benefit plans and plan administrators, and insurers, insurers’ counsel, whether in their individual or official capacities, and the current and former trustees or administrators of any pension, 401(k), or other benefit plan applicable to the employees or former employees of Employer, in their official and individual capacities.
 - D. “My Claims” mean any and all of the actual or potential claims of any kind whatsoever I may have had, or currently may have against Employer or any Released Party, whether known or unknown, that are in any way related to My employment with or separation from employment with Employer, including, but not limited to any claims for: invasion of privacy; breach of written or oral, express or implied, contract; fraud; misrepresentation; violation of the Age Discrimination in Employment Act of 1967 (“ADEA”), 29 U.S.C. § 626, as amended; the Genetic Information Nondiscrimination Act of 2008 (“GINA”), 42 U.S.C. § 2000, et seq., the Older Workers Benefit Protection Act of 1990 (“OWBPA”), 29 U.S.C. § 626(f), Title VII of the Civil Rights Act of 1964 (“Title VII”), 42 U.S.C. § 2000e, et seq., the Americans with Disabilities Act (“ADA”), 29 U.S.C. § 2101, et seq., and as amended (“ADAAA”), the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended, 29 U.S.C. § 1001, et seq., Equal Pay Act (“EPA”), 29 U.S.C. § 206(d), the Worker Adjustment and Retraining Notification Act (“WARN”), 29 U.S.C. § 2101, et seq., the Family and Medical Leave Act (“FMLA”), 29 U.S.C. § 2601, et seq.; National Labor Relations Act, 29 U.S.C. § 141, et seq., the False Claims Act, 31 U.S.C. § 3729, et seq., Anti-Kickback Statute, 42 U.S.C. § 1320a, et seq., the Minnesota Human Rights Act, Minn. Stat. § 363A.01, et seq., Minn. Stat. § 181, et seq., the Minnesota Whistleblower Act, Minn. Stat. § 181.931, et seq., the Montana Human Rights Act, Mont. Code Ann. § 49-1-101, et seq., the Montana Wrongful Discharge for Employment Act, Mont. Code Ann. § 39-2-901, et seq., the Montana Wage Payment Act, Mont. Code Ann. § 39-3-201, et seq., or any and all other Minnesota, Montana, and other state human rights or fair employment practices statutes, administrative regulations, or local ordinances, and any other Minnesota, Montana, or other federal, state, local or foreign statute, law, rule, regulation, ordinance or order, all as amended. This includes, but is not limited to, claims for violation of any civil rights laws based on protected class status; claims for assault, battery, defamation, intentional or negligent infliction of emotional distress, breach of the covenant of good faith and fair dealing; promissory estoppel; negligence; negligent hiring; retention or supervision; retaliation; constructive discharge; violation of whistleblower protection laws; unjust enrichment; violation of public policy; and, all other claims for unlawful employment practices, and all other common law or statutory claims.

 EMPLOYEE INITIALS

- II. **Agreement to Release My Claims.** Except as stated in Section V of this Release, I agree to release all My Claims and waive any rights to My Claims. I also agree to withdraw any and all of My charges and lawsuits against Employer; *except that* I may, but am not required to, withdraw or dismiss, or attempt to withdraw or dismiss, any charges that I may have pending against Employer with the Employment Opportunity Commission (“**EEOC**”) or other civil rights enforcement agency. In exchange for My agreement to release My Claims, I am receiving satisfactory Consideration from Employer to which I am not otherwise entitled by law, contract, or under any Employer policy. The Consideration I am receiving is a full and fair consideration for the release of all My Claims. Employer does not owe Me anything in addition to what I will be receiving according to the Separation Agreement which I have signed.
- III. **Unknown Claims.** In waiving and releasing any and all actual, potential, or threatened claims against Employer, whether or not now known to me, I understand that this means that if I later discover facts different from or in addition to those facts currently known by me, or believed by me to be true, the waivers and releases of this Release will remain effective in all respects – despite such different or additional facts and my later discovery of such facts, even if I would not have agreed to the Separation Agreement and this Release if I had prior knowledge of such facts.
- IV. **Confirmation of No Claims, Etc.** I am not aware of any other facts, evidence, allegations, claims, liabilities, or demands relating to alleged or potential violations of law that may give rise to any claim or liability on the part of any Released Party under the Securities Exchange Act of 1934, the Sarbanes–Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the False Claims Act, the Anti-kickback Statute. I understand that nothing in this Release interferes with My right to file a complaint, charge or report with any law enforcement agency, with the Securities and Exchange Commission (“**SEC**”) or other regulatory body, or to participate in any manner in an SEC or other governmental investigation or proceeding under any such law, statute or regulation, or to require notification or prior approval by Employer of any such a complaint, charge or report. I understand and agree, however, that I waive My right to recover any whistleblower award under the Securities Exchange Act of 1934, the Sarbanes–Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or other individual relief in any administrative or legal action whether brought by the SEC or other governmental or law enforcement agency, Me, or any other party, unless and to the extent that such waiver is contrary to law. I agree that the Released Parties reserve any and all defenses which they might have against any such allegations or claims brought by Me or on My behalf. I understand that Employer is relying on My representations in this Release and related Separation Agreement.

EMPLOYEE INITIALS

V. Exclusions from Release.

- A. The term "Claims" does not include My rights, if any, to claim the following: unemployment insurance benefits; workers compensation benefits; claims for My vested post-termination benefits under any 401(k) or similar retirement benefit plan; My rights to group medical or group dental insurance coverage pursuant to section 4980B of the Internal Revenue Code of 1986, as amended ("COBRA"); My rights to enforce the terms of this Release; or My rights to assert claims that are based on events occurring after this Release becomes effective.
- B. Nothing in this Release interferes with My right to file or maintain a charge with the Equal Employment Opportunity Commission or other local civil rights enforcement agency, or participate in any manner in an EEOC or other such agency investigation or proceeding. I, however, understand that I am waiving My right to recover individual relief including, but not limited to, back pay, front pay, reinstatement, attorneys' fees, and/or punitive damages, in any administrative or legal action whether brought by the EEOC or other civil rights enforcement agency, Me, or any other party.
- C. Nothing in this Release interferes with My right to challenge the knowing and voluntary nature of this Release under the ADEA and/or OWBPA.
- D. I agree that Employer reserves any and all defenses, which it has or might have against any claims brought by Me. This includes, but is not limited to, Employer's right to seek available costs and attorneys' fees as allowed by law, and to have any monetary award granted to Me, if any, reduced by the amount of money that I received in consideration for this Release.

VI. **Older Workers Benefit Protection Act.** The Older Workers Benefit Protection Act applies to individuals age 40 and older and sets forth certain criteria for such individuals to waive their rights under the Age Discrimination in Employment Act in connection with an exit incentive program or other employment termination program. I understand and have been advised that, if applicable, the above release of My Claims is subject to the terms of the OWBPA. The OWBPA provides that a covered individual cannot waive a right or claim under the ADEA unless the waiver is knowing and voluntary. If I am a covered individual, I acknowledge that I have been advised of this law, and I agree that I am signing this Release voluntarily, and with full knowledge of its consequences. I understand that Employer is giving Me twenty-one (21) days from the date I received a copy of this Release to decide whether I want to sign it. I acknowledge that I have been advised to use this time to consult with an attorney about the effect of this Release. If I sign this Release before the end of the twenty-one (21) day period it will be My personal, voluntary decision to do so, and will be done with full knowledge of My legal rights. I agree that material and/or immaterial changes to the Separation Agreement or this Release will not restart the running of this consideration period. I also acknowledge that the Separation Agreement, this Release and any other attachments or exhibits have each been written in a way that I understand.

EMPLOYEE INITIALS

VII. **Right to Rescind and/or Revoke.** I understand that insofar as this Release relates to My rights under the Minnesota Human Rights Act, it shall not become effective or enforceable until fifteen (15) days after I sign it. Any such revocation must be in writing and hand-delivered to Employer or, if sent by mail, postmarked within the applicable time period, sent by certified mail, return receipt requested, and addressed as follows:

A. post-marked within the fifteen (15) day revocation period;

B. properly addressed to:

Xtant Medical Holdings, Inc.
664 Cruiser Lane
Belgrade, MT 59714
Attn: Chief Executive Officer

and

C. sent by certified mail, return receipt requested.

I understand that the Consideration I am receiving for settling and releasing My Claims is contingent upon My agreement to be bound by the terms of this Release. Accordingly, if I decide to rescind or revoke this Release, I understand that I am not entitled to the Consideration described in the Separation Agreement. I further understand that if I attempt to rescind or revoke My release of any claim, I must immediately return to Employer all Consideration I have received under My Agreement.

VIII. **I Understand the Terms of this Release.** I have had the opportunity to read this Release carefully and understand all its terms. I have had the opportunity to review this Release with My own attorney. In agreeing to sign this Release, I have not relied on any oral statements or explanations made by Employer, including its employees or attorneys. I understand and agree that this Release and the attached Agreement contain all the agreements between Employer and Me. We have no other written or oral agreements.

Greg Jensen

Dated: _____, 20 ____

EMPLOYEE INITIALS

EXHIBIT B

AGREEMENT

**CERTIFICATION PURSUANT TO SECTION 302(a) OF
THE SARBANES-OXLEY ACT OF 2002**

I, Greg Jensen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Xtant Medical Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019

By: /s/ Greg Jensen

Greg Jensen
Vice President, Finance and Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Xtant Medical Holdings, Inc. (the "Company"), on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Greg Jensen, Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 8, 2019

/s/ Greg Jensen

Greg Jensen
Vice President, Finance and Chief Financial Officer
(Principal Executive and Financial Officer)
