

**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 September 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 November 6, 2019: 13,161,762.

XTANT MEDICAL HOLDINGS, INC.
FORM 10-Q
September 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 in the United States and abroad;
- 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 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)

	As of September 30, 2019 (Unaudited)	As of December 31, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,749	\$ 6,797
Trade accounts receivable, net of allowance for doubtful accounts of \$1,375 and \$2,140, respectively	9,121	9,990
Inventories	16,025	17,301
Prepaid and other current assets	714	589
Total current assets	31,609	34,677
Property and equipment, net	5,068	7,174
Right-of-use asset, net	2,198	—
Goodwill	3,205	3,205
Intangible assets, net	529	573
Other assets	428	793
Total Assets	\$ 43,037	\$ 46,422
LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 2,249	\$ 6,465
Accrued liabilities	6,196	5,150
Warrant derivative liability	17	10
Current portion of lease liability	387	—
Current portion of financing lease obligations	229	426
Total current liabilities	9,078	12,051
Long-term Liabilities:		
Lease liability, less current portion	1,827	—
Financing lease obligation, less current portion	6	204
Long-term debt, less issuance costs	74,985	77,939
Total Liabilities	85,896	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 September 30, 2019 and 13,172,179 shares issued and outstanding as of December 31, 2018	—	—
Additional paid-in capital	178,802	171,273
Accumulated deficit	(221,661)	(215,045)
Total Stockholders' Equity (Deficit)	(42,859)	(43,772)
Total Liabilities & Stockholders' Equity (Deficit)	\$ 43,037	\$ 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
Orthopedic product sales	\$ 15,691	\$ 17,139	\$ 47,574	\$ 53,622
Other revenue	30	127	144	319
Total Revenue	<u>15,721</u>	<u>17,266</u>	<u>47,718</u>	<u>53,941</u>
Cost of sales				
	5,249	5,743	16,527	17,711
Gross Profit	<u>10,472</u>	<u>11,523</u>	<u>31,191</u>	<u>36,230</u>
Operating Expenses				
General and administrative	4,155	3,121	12,513	10,006
Sales and marketing	6,682	7,847	19,496	24,742
Research and development	203	347	675	1,179
Depreciation and amortization	137	1,029	442	3,074
Restructuring expenses	—	614	—	2,582
Total Operating Expenses	<u>11,177</u>	<u>12,958</u>	<u>33,126</u>	<u>41,583</u>
Loss from Operations	<u>(705)</u>	<u>(1,435)</u>	<u>(1,935)</u>	<u>(5,353)</u>
Other (Expense) Income				
Interest expense	(1,185)	(1,790)	(4,504)	(8,156)
Change in warrant derivative liability	4	42	(8)	83
Other (expense) income	30	30	(101)	18
Total Other (Expense)	<u>(1,151)</u>	<u>(1,718)</u>	<u>(4,613)</u>	<u>(8,055)</u>
Net Loss Before Provision for Income Taxes	<u>(1,856)</u>	<u>(3,153)</u>	<u>(6,548)</u>	<u>(13,408)</u>
Provision for income taxes	(23)	—	(68)	—
Net Loss	<u>\$ (1,879)</u>	<u>\$ (3,153)</u>	<u>\$ (6,616)</u>	<u>\$ (13,408)</u>
Net loss per share:				
Basic	\$ (0.14)	\$ (0.24)	\$ (0.50)	\$ (1.19)
Dilutive	\$ (0.14)	\$ (0.24)	\$ (0.50)	\$ (1.19)
Shares used in the computation:				
Basic	13,161,762	13,158,326	13,164,694	11,262,642
Dilutive	13,161,762	13,158,326	13,164,694	11,262,642

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 SEPTEMBER 30

	<u>Common Stock</u>		<u>Additional Paid-In- Capital</u>	<u>Retained Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at June 30, 2018	13,145,305	\$ —	\$ 165,809	\$ (155,200)	\$ 10,609
Stock-based compensation	—	—	85	—	85
Issuance of warrants	—	—	5,114	—	5,114
Issuance of common stock	26,042	—	—	—	—
Net loss	—	—	—	(3,153)	(3,153)
Balance at September 30, 2018	<u>13,171,347</u>	<u>\$ —</u>	<u>\$ 171,008</u>	<u>\$ (158,353)</u>	<u>\$ 12,655</u>
Balance at June 30, 2019	13,161,762	\$ —	\$ 178,707	\$ (219,782)	\$ (41,075)
Stock-based compensation	—	—	95	—	95
Net loss	—	—	—	(1,879)	(1,879)
Balance at September 30, 2019	<u>13,161,762</u>	<u>\$ —</u>	<u>\$ 178,802</u>	<u>\$ (221,661)</u>	<u>\$ (42,859)</u>

STOCKHOLDERS' EQUITY – NINE MONTHS ENDED SEPTEMBER 30

	<u>Common Stock</u>		<u>Additional Paid-In- Capital</u>	<u>Retained Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2017	1,514,899	\$ —	\$ 86,247	\$ (144,945)	\$ (58,698)
Stock-based compensation	—	—	448	—	448
Issuance of common stock	11,656,448	—	79,199	—	79,199
Issuance of warrants	—	—	5,114	—	5,114
Net loss	—	—	—	(13,408)	(13,408)
Balance at September 30, 2018	<u>13,171,347</u>	<u>\$ —</u>	<u>\$ 171,008</u>	<u>\$ (158,353)</u>	<u>\$ 12,655</u>
Balance at December 31, 2018	13,172,179	\$ —	\$ 171,273	\$ (215,045)	\$ (43,772)
Stock-based compensation	—	—	256	—	256
Forfeiture of restricted stock	(10,417)	—	—	—	—
Debt extinguishment	—	—	7,264	—	7,264
Issuance of warrant	—	—	9	—	9
Net loss	—	—	—	(6,616)	(6,616)
Balance at September 30, 2019	<u>13,161,762</u>	<u>\$ —</u>	<u>\$ 178,802</u>	<u>\$ (221,661)</u>	<u>\$ (42,859)</u>

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30,	
	2019	2018
Operating activities:		
Net loss	\$ (6,616)	\$ (13,408)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,338	4,943
Gain on disposal of fixed assets	(27)	(15)
Non-cash interest	4,467	7,853
Non-cash rent	16	-
Non-cash stock option expense/change in derivative warrant liability	263	502
Provision for losses on accounts receivable and inventory	970	298
Changes in operating assets and liabilities:		
Accounts receivable	417	2,842
Inventories	760	(508)
Prepaid and other assets	240	1,138
Accounts payable	(4,216)	(3,557)
Accrued liabilities	1,046	(867)
Net cash used in operating activities	<u>(342)</u>	<u>(779)</u>
Investing activities:		
Purchases of property and equipment and intangible assets	(403)	(308)
Proceeds from sale of fixed assets	241	251
Net cash used in investing activities	<u>(162)</u>	<u>(57)</u>
Financing activities:		
Payments on financing leases	(395)	(260)
Costs associated with Second Amended and Restated Credit Agreement	(149)	—
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	<u>(544)</u>	<u>3,044</u>
Net change in cash and cash equivalents	(1,048)	2,208
Cash and cash equivalents at beginning of period	6,797	2,856
Cash and cash equivalents at end of period	<u>\$ 5,749</u>	<u>\$ 5,064</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 nine months ended September 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.

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 Certificate of Incorporation (the "Certificate Amendment"). The Certificate Amendment amended and restated our Certificate of Incorporation (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, warrants 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 required 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 was filed on May 15, 2018 and 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 September 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, 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 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. No impairment expense was recorded during the three and nine months ended September 30, 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. No impairment expense was recorded during the three and nine months ended September 30, 2019.

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 nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30, 2019	Percentage of Total Revenue	Three Months Ended September 30, 2018	Percentage of Total Revenue
Orthobiologics	\$ 11,342	72%	\$ 11,507	67%
Spinal implant	4,349	28%	5,632	33%
Other revenue	30	0%	127	0%
Total revenue	<u>\$ 15,721</u>	<u>100%</u>	<u>\$ 17,266</u>	<u>100%</u>

	Nine Months Ended September 30, 2019	Percentage of Total Revenue	Nine Months Ended September 30, 2018	Percentage of Total Revenue
Orthobiologics	\$ 34,374	72%	\$ 36,419	68%
Spinal implant	13,200	28%	17,203	32%
Other revenue	144	0%	319	0%
Total revenue	<u>\$ 47,718</u>	<u>100%</u>	<u>\$ 53,941</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 September 30, 2019 and December 31, 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 three and nine months ended September 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 3,313,953 and 2,156,882 outstanding stock options, restricted stock units and warrants for the three and nine months ended September 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 nine months ended September 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</u> <u>September 30, 2019</u>	<u>As of</u> <u>December 31, 2018</u>
Level 1	—	—
Level 2	—	—
Level 3	\$ 17	\$ 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.

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 are currently evaluating this update to determine the full impact of its adoption but do not expect 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

Inventories consist of the following (in thousands):

	September 30, 2019	December 31, 2018
Raw materials	\$ 3,738	\$ 3,519
Work in process	1,501	949
Finished goods	23,270	25,235
Gross inventories	28,509	29,703
Reserve for obsolescence	(12,484)	(12,402)
Total	\$ 16,025	\$ 17,301

(3) Property and Equipment, Net

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

	September 30, 2019	December 31, 2018
Equipment	\$ 4,140	\$ 4,145
Computer equipment	455	481
Computer software	570	570
Furniture and fixtures	99	164
Leasehold improvements	3,979	3,941
Vehicles	10	10
Surgical instruments	10,872	10,772
Total cost	20,125	20,083
Less: accumulated depreciation	(15,057)	(12,909)
Property and equipment, net	\$ 5,068	\$ 7,174

Depreciation expense related to property and equipment, including property under capital lease, for the first nine months of 2019 and 2018 was \$2.3 million and \$2.4 million, respectively. Depreciation expense not included as part of the depreciation and amortization line item within the condensed consolidated statements of operations is classified as part of cost of sales.

The Company leases certain equipment under finance leases. For financial reporting purposes, minimum lease payments relating to the assets have been capitalized. As of September 30, 2019, the Company has recorded \$1.5 million of gross assets in equipment and \$0.9 million of accumulated depreciation.

(4) Intangible Assets

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

	September 30, 2019	December 31, 2018
Patents	\$ 847	\$ 847
Accumulated amortization	(318)	(274)
Intangible assets, net	<u>\$ 529</u>	<u>\$ 573</u>

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

Remainder of 2019	\$ 14
2020	56
2021	55
2022	54
2023	52
Thereafter	298
Total	<u>\$ 529</u>

(5) Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2019	December 31, 2018
Wages/commissions payable	\$ 3,849	\$ 3,332
Other accrued liabilities	2,347	1,818
Accrued liabilities	<u>\$ 6,196</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 were 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 September 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 September 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 September 30, 2019, our long-term debt, less issuance costs was \$75.0 million. 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.

While our long-term debt, less issuance costs balance was \$75.0 million as of September 30, 2019 under GAAP, the Company owes a principal balance of \$55.8 million plus accrued PIK interest of \$27.2 million as of September 30, 2019.

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):

	September 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	2,172	27,178
Plus: 2% exit fee on Prior Credit Agreement	266	254
Gross long-term debt	<u>75,095</u>	<u>83,219</u>
Less: discount on Credit Agreements	—	(5,114)
Less: total debt issuance costs on Credit Agreements	(110)	(166)
Long-term debt, less issuance costs	<u>\$ 74,985</u>	<u>\$ 77,939</u>

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

Remainder of 2019	\$ —
2020	—
2021	75,095
2022	—
2023	—
Thereafter	—
Total	<u>\$ 75,095</u>

(7) Equity

Charter Amendment

On October 30, 2019, the Company's stockholders, upon recommendation of the Board, approved an amendment to the Company's Charter to increase the number of authorized shares of common stock from 50,000,000 to 75,000,000.

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 at the 2018 annual meeting of stockholders of Xtant and at the 2019 annual meeting of stockholders held on October 30, 2019 approved an amendment to increase the number of shares of common stock available thereunder by 1,500,000 shares (as amended, the "2018 Plan"). The 2018 Plan became effective immediately upon initial approval of the plan by our stockholders on August 1, 2018 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, although the Prior Plan continues 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 2,807,747 shares, of which 1,742,387 shares remain available as of the date of this report. 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 become 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 September 30, 2019, stock options to purchase an aggregate of 210,360 shares of our common stock, a restricted stock award for 13,021 shares of common stock, and restricted stock units covering 129,204 shares were outstanding under the 2018 Plan. During the nine months ended September 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. Effective October 7, 2019, the Company entered into an employment agreement with Sean Browne as the Company's President and Chief Executive Officer. In connection with the employment agreement, the Company granted stock options to purchase 329,044 shares of our common stock and restricted stock units covering 329,044 shares effective as of October 15, 2019.

The Board also granted various awards under the Prior Plan. As of September 30, 2019, stock options to purchase an aggregate of 17,772 shares of our common stock and restricted stock awards for 23,438 shares of our common stock were outstanding under the Prior Plan. During the nine months ended September 30, 2019, options to purchase 3,416 shares of our common stock granted under the Prior Plan were forfeited and cancelled as a result of the termination of employment of optionees and a restricted stock award for 10,417 shares of our common stock was forfeited and cancelled as a result of the termination of service of a director.

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 September 30, 2019, no Non-Plan Grants were outstanding. During the nine months ended September 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 nine months ended September 30, 2019 and 2018 is based on awards expected to vest and reflects an estimate of awards that will be forfeited. Stock options to purchase an aggregate of 179,590 shares of common stock were issued during the nine months ended September 30, 2019; options to purchase an aggregate of 410,770 shares of common stock 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	179,590	\$ 2.47	\$ 2.02	410,770	\$ 5.71	\$ 3.91
Cancelled or expired	(448,416)	\$ 5.51	\$ 4.21	(33,002)	\$ 53.23	\$ 36.42
Outstanding at September 30	228,132	\$ 12.51	\$ 7.64	445,233	\$ 12.09	\$ 6.49
Exercisable at September 30	25,464	\$ 89.03	\$ 49.36	34,463	\$ 135.23	\$ 67.26

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:

	Nine Months Ended September 30,	
	2019	2018
Risk free interest rate	2.2%	2.9%
Dividend yield	0%	0%
Expected term	8.3 years	10 years
Expected volatility	92%	90%

Total stock-based compensation recognized for employees and directors was \$0.3 million and \$0.6 million for the nine months ended September 30, 2019 and 2018, respectively, and was recognized as general and administrative expense. The aggregate intrinsic value of options outstanding as of September 30, 2019 was \$66 thousand.

(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. 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 September 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>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Value of underlying common stock (per share)	\$ 2.84	\$ 3.85
Risk free interest rate	1.7%	2.10%
Expected term in years	3.0	3.9
Volatility	85%	62%
Dividend yield	0%	0%

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

	<u>2019</u>	<u>2018</u>
Balance at January 1,	87,509	93,759
Derivative warrants expired	—	(6,250)
Balance at September 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 \$8 thousand resulting from the change in the fair value of the warrant derivative liability for the nine months ended September 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 lease six office facilities as of September 30, 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 \$49 thousand as of September 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):	September 30, 2019
Right-of-use assets, net	\$ 2,198
Current portion of lease liability	387
Lease liability, less current portion	1,827
Total lease liability	\$ 2,214

As of September 30, 2019, the weighted-average remaining lease term was 5 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 September 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 September 30, 2019 under these long-term operating leases are as follows (in thousands):

Remainder of 2019	\$ 125
2020	501
2021	507
2022	521
2023	489
Thereafter	404
Total future minimum lease payments	2,547
Less amount representing interest	(333)
Present value of obligations under operating leases	2,214
Less current portion	(387)
Long-term operating lease obligations	\$ 1,827

Rent expense was \$0.4 million and \$0.9 million for each of the nine months ended September 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 September 30, 2019 under financing leases for equipment are as follows (in thousands):

Remainder of 2019	\$	53
2020		205
2021		—
2022		—
2023		—
Thereafter		—
Total future minimum lease payments		<u>258</u>
Less amount representing interest		<u>(23)</u>
Present value of obligations under financing leases		235
Less current portion		<u>(229)</u>
Long-term financing lease obligations	\$	<u><u>6</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.

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 we do not believe are probable or that we consider immaterial to our 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 nine months ended September 30, 2019 and 2018.

(12) Supplemental Disclosure of Cash Flow Information

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

	Nine Months Ended	
	September 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	\$ —	\$ 448
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	\$ —
Debt discount	\$ —	\$ 5,114

(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. The rent was \$2,100 per month for the months of April through July 2019 and is currently \$1,260 per month. 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 nine months ended September 30, 2019 and 2018, respectively. Total revenue by major geographic area is as follows (in thousands):

	Three Months Ended September 30,	
	2019	2018
United States	\$ 15,097	\$ 16,496
Rest of world	624	770
Total revenue	\$ 15,721	\$ 17,266

	Nine Months Ended September 30,	
	2019	2018
United States	\$ 45,781	\$ 51,288
Rest of world	1,937	2,653
Total revenue	\$ 47,718	\$ 53,941

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 September 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 third 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 September 30, 2019, our cash and cash equivalents were \$5.7 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 September 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 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 Nine Months Ended September 30, 2019 and September 30, 2018

Revenue

Total revenue for the three and nine months ended September 30, 2019 was \$15.7 million and \$47.7 million, respectively, which represents a decrease of 8.9% and 11.5%, respectively, compared to \$17.3 million and \$53.9 million for the three and nine months ended September 30, 2018, respectively. These declines were primarily due to reduced demand for our hardware products in both domestic and international markets. The reduced demand for our hardware products was due in part to the termination of an advisory agreement with an entity that provided services to some of our customers and the continued transition of certain independent sales agents out of the Company.

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 September 30, 2019 decreased 8.6% to \$5.2 million from \$5.7 million for the three months ended September 30, 2018. Cost of sales for the nine months ended September 30, 2019 decreased 6.7% to \$16.5 million from \$17.7 million for the nine months ended September 30, 2018. As a percentage of revenue, cost of sales increased to 33.4% and 34.6% for the three and nine months ended September 30, 2019, respectively, versus 33.3% and 32.8% for the three and nine months ended September 30, 2018, respectively. Gross margin percentages for the three months ended September 30, 2019 were comparable to the prior period. The increase in cost of sales as percentage of sales during the nine months ended September 30, 2019 compared to the prior period reflects a \$0.6 million increase the Company's inventory reserves compared to the prior period.

General and Administrative Expenses

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 33.1%, or \$1.0 million, to \$4.2 million for the three months ended September 30, 2019 compared to the same period of 2018. This increase was primarily due to increased bad debt expense of \$0.2 million, executive recruiting fees of \$0.2 million and retention of finance and accounting consultants previously utilized in connection with our restructuring for assistance in general and administrative functions. General and administrative expenses increased 25.1%, or \$2.5 million, to \$12.5 million for the nine months ended September 30, 2019 compared to the same period of 2018. This increase was primarily due to legal settlements of \$0.7 million, increased bad debt expense of \$0.5 million, executive recruiting fees of \$0.5 million and retention of finance and accounting consultants previously utilized in connection with our restructuring for assistance in general and administrative functions.

Sales and Marketing Expenses

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 14.8% and 21.2% to \$6.7 million and \$19.5 million for the three and nine months ended September 30, 2019, respectively, compared to \$7.8 million and \$24.7 million for the three and nine months ended September 30, 2018, respectively. As a percentage of revenue, sales and marketing expenses decreased to 41.5% and 39.8% for the three and nine months ended September 30, 2019, respectively, from 45.5% and 45.9% for the three and nine months ended September 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 Expenses

Research and development expenses consist primarily of internal costs for the development of new technologies and processes. Research and development expenses decreased 41.5% and 42.8% to \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2019, respectively, from \$0.3 million and \$1.2 million for the three and nine months ended September 30, 2018, respectively. These decreases were primarily due to a reduction in headcount compared to the prior year periods.

Depreciation and Amortization Expenses

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 \$0.4 million for the three and nine months ended September 30, 2019, respectively, from \$1.0 million and \$3.1 million for the three and nine months ended September 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 nine months ended September 30, 2019 and \$0.6 million and \$2.6 million, for the three and nine months ended September 30, 2018, respectively. Restructuring costs for the three and nine months ended September 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 \$1.2 million and \$4.5 million for the three and nine months ended September 30, 2019, respectively, compared to \$1.8 million and \$8.2 million for the three and nine months ended September 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 nine months ended September 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.

	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 5,749	\$ 6,797
Accounts receivable, net	9,121	9,990
Inventories	16,025	17,301
Total current assets	31,609	34,677
Accounts payable	2,249	6,465
Accrued liabilities	6,196	5,150
Total current liabilities	9,078	12,051
Total working capital	22,531	22,626
Long-term debt, less issuance costs	74,985	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 September 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 September 30, 2019, our long-term debt, less issuance costs was \$75.0 million. 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.

While our long-term debt, less issuance costs balance was \$75.0 million as of September 30, 2019 under GAAP, the Company owes a principal balance of \$55.8 million plus accrued PIK interest of \$27.2 million as of September 30, 2019.

Cash Flows

Net cash used by operating activities for the nine months ended September 30, 2019 was \$0.3 million compared to \$0.8 million for the nine months ended September 30, 2018. The reduction relates primarily to a decrease in net loss, offset by reductions in depreciation and amortization, non-cash interest and the effects of changes in operating activities.

Net cash used in investing activities for the nine months ended September 30, 2019 was \$0.2 million compared to \$0.1 million for the nine months ended September 30, 2018. The increase reflects primarily increases in purchases of property and equipment and intangible assets.

Net cash used in financing activities was \$0.5 million during the nine months ended September 30, 2019 compared to net cash provided by financing activities of \$3.0 million for the nine months ended September 30, 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 then 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 September 30, 2019 and under the Prior Credit Agreement as of December 31, 2018. As of September 30, 2019, there was \$12.2 million in unused availability under the Second Amended and Restated Credit Agreement.

Cash Requirements

We believe that our September 30, 2019 cash and cash equivalents of \$5.7 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 are currently evaluating this update to determine the full impact of its adoption but do not expect 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 nine months ended September 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 officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2019. Based upon that evaluation, our principal executive officer and principal financial officer concluded that as of September 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 September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except for the hiring of additional finance personnel, including a new controller, to perform roles previously performed by consultants.

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.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

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 of Xtant Medical Holdings, Inc. (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>Certificate of Amendment to Amended and Restated Certificate of Incorporation of Xtant Medical Holdings, Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 31, 2019 (SEC File No. 0-34941) and incorporated by reference herein).</u>
3.3	<u>Second Amended and Restated Bylaws of Xtant Medical Holding, Inc. (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>
10.1	<u>Amended and Restated Employment Agreement effective as of August 8, 2019 between Xtant Medical Holdings, Inc. and Greg Jensen (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (SEC File No. 0-34941) and incorporated by reference herein).</u>
10.2	<u>Form of Non-Employee Director Restricted Stock Unit Award Agreement for use with the Xtant Medical Holdings, Inc. 2018 Equity Incentive Plan (filed herewith)</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)</u>
101	The following materials from Xtant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 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: November 7, 2019

By: /s/ Sean E. Browne

Name: Sean E. Browne

Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2019

By: /s/ Greg Jensen

Name: Greg Jensen

Title: Vice President, Finance and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**NOTICE OF RESTRICTED STOCK UNIT GRANT UNDER THE
XTANT MEDICAL HOLDINGS, INC. 2018 EQUITY INCENTIVE PLAN**

Xtant Medical Holdings, Inc., a Delaware corporation (the "Company"), pursuant to the Xtant Medical Holdings, Inc. 2018 Equity Incentive Plan (as may be amended from time to time, the "Plan"), hereby grants to the individual named below (the "Participant") the number of Restricted Stock Units (as defined in the Plan) set forth below (the "Restricted Stock Units"). The Restricted Stock Units are subject to all of the terms and conditions set forth in this Notice of Restricted Stock Unit Grant (this "Grant Notice"), in the Restricted Stock Unit Award Agreement attached hereto (the "Award Agreement"), and in the Plan, all of which are incorporated herein in their entirety. Capitalized terms not otherwise defined herein will have the meaning set forth in the Plan. This Restricted Stock Units grant has been made as of the grant date indicated below, which shall be referred to as the "Grant Date."

Grant ID:

Participant: [Name of Non-Employee Director]

Grant Date: _____

Total Number of Restricted Stock Units: _____ Shares subject to adjustment as provided in the Plan.

Vesting Schedule: Except as otherwise provided in Section 3 of the Award Agreement, the Restricted Stock Units will vest and the underlying Shares will become issuable on _____; provided, however, that the Participant remains a director of or provides services to the Company or any Subsidiary through such vesting date.

* * * * *

The Participant must accept this Restricted Stock Unit grant by executing this Grant Notice in the space provided below and returning such original execution copy to the Company or otherwise indicating affirmative acceptance of the Restricted Stock Unit grant electronically pursuant to procedures established by the Company and/or its third party administrator. The undersigned Participant acknowledges that he or she has received a copy of this Grant Notice, the Award Agreement, the Plan and the Plan Prospectus. As an express condition to the grant of the Restricted Stock Units hereunder, the Participant agrees to be bound by the terms of this Grant Notice, the Award Agreement and the Plan. The Participant has read carefully and in its entirety the Award Agreement and specifically the acknowledgements in Section 7.9 thereof. This Grant Notice, the Award Agreement and the Plan set forth the entire agreement and understanding of the Company and the Participant with respect to the grant, vesting and administration of this Restricted Stock Units award and supersede all prior agreements, arrangements, plans and understandings. This Grant Notice (which includes the attached Award Agreement) may be executed in two counterparts each of which will be deemed an original and both of which together will constitute one and the same instrument.

* * * * *

XTANT MEDICAL HOLDINGS, INC.

PARTICIPANT

By: Sean E. Browne
Title: President and Chief Executive Officer

RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Notice of Restricted Stock Unit Grant (the "Grant Notice") to which this Restricted Stock Unit Award Agreement (this "Agreement") is attached and which Grant Notice is included in and part of this Agreement, and subject to the terms of this Agreement and the Xtant Medical Holdings, Inc. 2018 Equity Incentive Plan (as may be amended from time to time, the "Plan"), Xtant Medical Holdings, Inc., a Delaware corporation (the "Company"), and the Participant named in the Grant Notice (the "Participant") agree as follows:

1. Incorporation of Plan; Definitions. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement will be construed in accordance with the provisions of the Plan and any capitalized terms not otherwise defined in this Agreement or in the Grant Notice will have the same meanings as set forth in the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is not authorized by or is inconsistent with the terms of the Plan, the terms of the Plan will prevail. Pursuant to and in accordance with the terms of the Plan, the Committee will have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations thereunder, and its decision will be final, binding and conclusive upon the Participant and his or her legal representatives in respect of any questions arising under the Plan or this Agreement. A copy of the Plan and the Plan Prospectus have been delivered to the Participant together with this Agreement.

2. Grant of Restricted Stock Units. The Company hereby grants to the Participant that number of Restricted Stock Units as set forth in the Grant Notice, subject to adjustment as provided in the Plan, and each of which, once vested pursuant to this Agreement, will be settled in one (1) share of Common Stock, subject to the terms, conditions and restrictions set forth herein and in the Plan. Reference in this Agreement to the Restricted Stock Units will be deemed to include the Dividend Equivalents with respect to such Restricted Stock Units as set forth in Section 4.2 of this Agreement.

3. Vesting and Conditions to Issuance of Common Stock; Forfeiture

3.1 Service-Based Vesting Condition. Except as otherwise provided in this Section 3 or this Agreement or the Plan, the Restricted Stock Units will vest and such vested Restricted Stock Units will be converted to Common Stock immediately thereafter in the amounts and on the date(s) as indicated in the Vesting Schedule set forth in the Grant Notice (each a "Vesting Date") and as set forth in this Agreement and in the Plan; provided, however, that the Participant remains a director of the Company or otherwise provides services to the Company or any Subsidiary through the applicable Vesting Date.

3.2 Change in Control. Except as otherwise provided in an Individual Agreement between the Company and the Participant, upon a Change in Control (as defined in an Individual Agreement between the Participant and the Company or if there is no such Individual Agreement or if it does not define Change in Control, then as defined in the Plan), the Restricted Stock Units will be subject to the provisions below.

a. In the event of such a Change in Control, the surviving or successor organization (or a parent or subsidiary thereof) (the "Successor") may continue, assume or substitute equivalent awards (with such adjustments as may be required or permitted by Section 4.4 of the Plan). A substitute equivalent award must (i) have a value at least equal to the value of the Restricted Stock Units being substituted; (ii) be the same type of award as the Restricted Stock Units being substituted; (iii) be vested to the extent vested at the time of and as a result of the Change in Control; and (iv) have other terms and conditions (including vesting and effect of termination within one (1) year following a Change in Control) that are not less favorable to the Participant than the terms and conditions of the Restricted Stock Units being substituted, in each case, as determined by the Committee (as constituted prior to the Change in Control) in its sole discretion. If the Restricted Stock Units are continued, assumed or substituted by the Successor and within one (1) year following a Change in Control, the Participant is no longer a director of the Company or providing services to the Company or any Subsidiary for any reason other than the Participant's voluntary resignation, the Restricted Stock Units will vest and such vested Restricted Stock Units will be converted to Common Stock immediately thereafter in the amounts as indicated in the Grant Notice and as set forth in this Agreement and in the Plan as of the termination or resignation.

b. In the event of such a Change in Control, any Restricted Stock Units that are not continued, assumed or substituted with equivalent awards by the Successor pursuant to Section 3.2(a) above, the Restricted Stock Units, effective immediately prior to such Change in Control but conditioned upon the completion of such Change in Control, will be fully vested and such vested Restricted Stock Units will be converted to Common Stock immediately thereafter.

3.3 Effect of Termination of Service. Except as otherwise provided below or in Section 13.4 or 13.5 of the Plan or in an Individual Agreement between the Company or any Subsidiary and the Participant, in the event the Participant's service as a director or otherwise with the Company and all Subsidiaries is terminated for any reason, all outstanding but unvested Restricted Stock Units held by the Participant as of the effective date of such termination will be terminated and forfeited. Notwithstanding the foregoing, in the event the Participant's service with the Company and all Subsidiaries is terminated by reason of the Participant's death, a pro rata percentage of the unvested Restricted Stock Units scheduled to vest on the next applicable Vesting Date, with such proration based on the number of days during which the Participant was a director of the Company or otherwise provided services to the Company or a Subsidiary beginning on the Grant Date, or if a Vesting Date has occurred, the most recent Vesting Date, and ending on the next applicable Vesting Date, multiplied by the number of unvested Restricted Stock Units that were scheduled to vest on the next applicable Vesting Date, will become immediately vested and shares of Common Stock will become issuable under Section 4.1.

3.4 Effect of Actions Constituting Cause or Adverse Action; Forfeiture or Clawback. The Restricted Stock Units are subject to the forfeiture provisions set forth in Section 13.5 of the Plan, including those applicable if the Participant is determined by the Committee to have taken any action that would constitute Cause or an Adverse Action and any forfeiture or clawback requirement under Applicable Law or any policy adopted from time to time by the Company.

4. Settlement; Issuance of Common Stock

4.1 Timing and Manner of Settlement. Vested Restricted Stock Units will be converted to shares of Common Stock which the Company will issue and deliver to the Participant (either by delivering one or more certificates for such shares or by entering such shares in book entry form in the name of the Participant or depositing such shares for the Participant's benefit with any broker with which the Participant has an account relationship or the Company has engaged to provide such services under the Plan, as determined by the Company in its sole discretion) within seventy four (74) days following the Vesting Date, except to the extent that shares of Common Stock are withheld to pay tax withholding obligations pursuant to Section 6 of this Agreement or the Participant has properly elected to defer income that may be attributable to such Restricted Stock Units under a Company deferred compensation plan or arrangement. Payment of amounts under this Agreement (by issuance of shares of Common Stock or otherwise) is intended to comply with the requirements of an exception to Section 409A of the Code and this Agreement shall in all respects be administered and construed to give effect to such intent. The Committee in its sole discretion may accelerate or delay the distribution of any payment under this Agreement to the extent allowed under Section 409A of the Code.

4.2 Dividends Equivalents. The Restricted Stock Units are being granted with an equal number of Dividend Equivalents. Such Dividend Equivalents entitle the Participant to be credited with any amount equal to all cash dividends paid on one share of Common Stock for each Restricted Stock Unit while the corresponding Restricted Stock Unit is outstanding. Dividend Equivalents will be converted into additional Restricted Stock Units and will be subject to the same conditions and restrictions as the Restricted Stock Units to which they attach. The number of additional Restricted Stock Units to be received as Dividend Equivalents will be determined by dividing the cash dividend per share by the Fair Market Value of one share of Common Stock on the dividend payment date. Dividend Equivalents as to the Restricted Stock Units will be subject to forfeiture and termination to the same extent as the corresponding Restricted Stock Units as to which the Dividend Equivalents relate.

5. Rights of Participant

5.1 No Right to Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the service of the Participant at any time, nor confer upon the Participant any right to continue service as a director or otherwise with the Company or any Subsidiary.

5.2 Rights as a Stockholder. The Participant will have no rights as, or privileges of, a stockholder of the Company, with respect to shares of Common Stock covered by the Restricted Stock Units unless and until the Participant becomes the holder of record of such shares of Common Stock issued in settlement of the Restricted Stock Units (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company).

5.3 Restrictions on Transfer. Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by the Plan, no right or interest of the Participant in the Restricted Stock Units prior to the vesting, issuance or settlement of the Restricted Stock Units will be assignable or transferable, or subjected to any lien, during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise. Any attempt to transfer, assign or encumber the Restricted Stock Units other than in accordance with this Agreement and the Plan will be null and void and the Restricted Stock Units for which the restrictions have not lapsed will be forfeited and immediately returned to the Company.

6. Withholding Taxes. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts that may be due and owing to the Participant from the Company or a Subsidiary), or make other arrangements for the collection of, all amounts the Company reasonably determines are necessary to satisfy any and all federal, foreign, state and local withholding and employment related tax requirements attributable to the Restricted Stock Units, including the grant, vesting or settlement of, or payment of Dividend Equivalents with respect to, the Restricted Stock Units, or (b) require the Participant promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to the Restricted Stock Units. The Committee may, in its sole discretion and upon terms and conditions established by the Committee, permit or require the Participant to satisfy, in whole or in part, any withholding or employment related tax obligation in connection with the Restricted Stock Units by withholding shares of Common Stock issuable upon settlement of the Restricted Stock Units. When withholding shares of Common Stock for taxes is effected under this Agreement and the Plan, it will be withheld only up to an amount based on the maximum statutory tax rates in the Participant's applicable tax jurisdiction or such other rate that will not trigger a negative accounting impact on the Company.

7. Miscellaneous.

7.1 Governing Law. The validity, construction, interpretation, administration and effect of this Agreement and any rules, regulations and actions relating to this Agreement will be governed by and construed exclusively in accordance with the laws of the State of Delaware, notwithstanding the conflicts of laws principles of any jurisdictions.

7.2 Interpretation. Any dispute regarding the interpretation of this Agreement will be submitted by the Participant or by the Company forthwith to the Committee for review. The resolution of such a dispute by the Committee will be final and binding on all parties.

7.3 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement will inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement will be binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

7.4 Notices. All notices, requests or other communications provided for in this Agreement must be made, if to the Company, to Xtant Medical Holdings, Inc., Attn: Chief Financial Officer, 664 Cruiser Lane, Belgrade, MT 59714, and if to the Participant, to the last known mailing address of the Participant contained in the records of the Company. All notices, requests or other communications provided for in this Agreement must be made in writing either (a) by personal delivery, (b) by facsimile or electronic mail with confirmation of receipt, (c) by mailing in the United States mails or (d) by express courier service. The notice, request or other communication will be deemed to be received upon personal delivery, upon confirmation of receipt of facsimile or electronic mail transmission or upon receipt by the party entitled thereto if by United States mail or express courier service; provided, however, that if a notice, request or other communication sent to the Company is not received during regular business hours, it will be deemed to be received on the next succeeding business day of the Company.

7.5 Electronic Delivery and Acceptance. The Company may, in its sole discretion, deliver any documents related to the Restricted Stock Units by electronic means or request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line system established and maintained by the Company or a third party vendor designated by the Company.

7.6 Other Laws. The Company will have the right to refuse to issue to the Participant or transfer any shares of Common Stock subject to the Restricted Stock Units if the Company acting in its absolute discretion determines that the issuance or transfer of such shares might violate any Applicable Law.

7.7 Investment Representation. The Participant hereby represents and covenants that (a) any share of Common Stock acquired upon the vesting of the Restricted Stock Units will be acquired for investment and not with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), unless such acquisition has been registered under the Securities Act and any applicable state securities laws; (b) any subsequent sale of any such shares will be made either pursuant to an effective registration statement under the Securities Act and any applicable state securities laws, or pursuant to an exemption from registration under the Securities Act and such state securities laws; and (c) if requested by the Company, the Participant will submit a written statement, in form satisfactory to the Company, to the effect that such representation (x) is true and correct as of the date of vesting of any shares of Common Stock hereunder or (y) is true and correct as of the date of any sale of any such share, as applicable. As a further condition precedent to the delivery to the Participant of any shares of Common Stock subject to the Restricted Stock Units, the Participant will comply with all regulations and requirements of any regulatory authority having control of or supervision over the issuance or delivery of the shares and, in connection therewith, will execute any documents which the Company will in its sole discretion deem necessary or advisable.

7.8 Non-Negotiable Terms. The terms of this Agreement and the Restricted Stock Units are not negotiable, but the Participant may refuse to accept the Restricted Stock Units by notifying the Company's Chief Financial Officer in writing within thirty (30) day after the Grant Date set forth in the Grant Notice.

7.9 Acknowledgement by the Participant. In accepting the Restricted Stock Units, the Participant hereby acknowledges that:

(a) The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan.

(b) The grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted repeatedly in the past.

(c) All decisions with respect to future Restricted Stock Units award grants, if any, will be at the sole discretion of the Company.

(d) The Participant is voluntarily participating in the Plan.

(e) The future value of the shares of Common Stock subject to the Restricted Stock Units is unknown and cannot be predicted with certainty and if the Restricted Stock Units vest and the shares of Common Stock become issuable in accordance with the terms of this Agreement, the value of those shares of Common Stock may increase or decrease.

(f) In consideration of the grant of the Restricted Stock Units, no claim or entitlement to compensation or damages shall arise from termination of the Restricted Stock Units or diminution in value of the Restricted Stock Units or shares of Common Stock acquired upon vesting of the Restricted Stock Units resulting from a termination of service of the Participant with the Company (for any reason whatsoever and whether or not in breach of applicable labor laws) and the Participant hereby irrevocably releases the Company and its Subsidiaries from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by acceptance of the Restricted Stock Units, the Participant shall be deemed irrevocably to have waived his or her entitlement to pursue such claim.

(g) Neither the Company nor any Subsidiary is providing any tax, legal or financial advice, nor is the Company or any Subsidiary making any recommendations regarding the Participant's participation in the Plan, acceptance of the Restricted Stock Units, acquisition of shares of Common Stock upon vesting of the Restricted Stock Units or any sale of such shares.

(h) The Participant has been advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

* * * * *

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sean E. Browne, 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: November 7, 2019

By: /s/ Sean E. Browne
Sean E. Browne
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULES 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 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: November 7, 2019

By: /s/ Greg Jensen

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER 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 September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean E. Browne, President and Chief Executive 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.

November 7, 2019

/s/ Sean E. Browne

Sean E. Browne
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER 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 September 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.

November 7, 2019

/s/ Greg Jensen

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