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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **February 28, 2023**

XTANT MEDICAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-34951
(Commission
File Number)

20-5313323
(IRS 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)

Not Applicable
(Former name or former address, if changed since last report.)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

EXPLANATORY NOTE

On March 1, 2023, Xtant Medical Holdings, Inc., a Delaware corporation (the “Company”), filed a Current Report on Form 8-K with the Securities and Exchange Commission (the “Original 8-K”) reporting the Company’s acquisition of Surgalign SPV, Inc. (“Surgalign SPV”). The Company is filing this amendment to the Original 8-K (“Amendment”) to amend and supplement the Original 8-K to include financial statements of Surgalign SPV and pro forma financial information as required by Item 9.01(a) and 9.01(b), respectively, of Form 8-K. This Amendment should be read together with the Original 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial statements of businesses or funds acquired.*

The abbreviated financial statements of Surgalign SPV as of and for the nine months ended September 30, 2022 (unaudited) and the year ended December 31, 2021 are filed as Exhibit 99.1 to this Amendment and incorporated herein by reference.

(b) *Pro forma financial information.*

The unaudited pro forma condensed combined balance sheet as of September 30, 2022, the unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2022, the unaudited pro forma combined statement of operations for the year ended December 31, 2021, and notes to the unaudited pro forma condensed combined financial information, all giving effect to the Company’s acquisition of Surgalign SPV, are filed as Exhibit 99.2 to this Amendment and incorporated herein by reference.

(d) *Exhibits.*

Exhibit No.	Description
23.1	Consent of Independent Accounting Firm
99.1	Abbreviated Financial Statements of Surgalign SPV
99.2	Unaudited Pro Forma Condensed Combined Financial Information of the Company and Surgalign SPV
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

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 hereunto duly authorized.

XTANT MEDICAL HOLDINGS, INC.

By: */s/ Scott Neils*

Scott Neils
Chief Financial Officer

Date: May 16, 2023



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Denver, CO 80237
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CONSENT OF INDEPENDENT ACCOUNTING FIRM

We consent to the incorporation by reference in Xtant Medical Holdings, Inc.'s Registration Statements on Form S-3 (File Nos. 333-255074, 333-255988 and 333-267817), Form S-1 (File Nos. 333-224940 and 333-251515) and on Form S-8 (File Nos. 333-172891, 333-187563, 333-191248, 333-212510, 333-226588, 333-234595, 333-249762 and 333-268052) of our report dated May 16, 2023 with respect to the abbreviated financial statements of Surgalign SPV, Inc., which report appears in the Form 8-K/A of Xtant Medical Holdings, Inc. filed May 16, 2023.

/s/ Plante & Moran, PLLC

May 16, 2023
Denver, Colorado

SURGALIGN SPV, INC.
ABBREVIATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS REPORT

The Board of Directors

Surgalign SPV, Inc.:

REPORT ON ABBREVIATED FINANCIAL STATEMENTS OF SURGALIGN SPV, INC.

Opinion

We have audited the abbreviated financial statements of Surgalign SPV, Inc. (the Reporting Entity), which comprise the statement of assets acquired as of December 31, 2021, and the related statement of revenues and direct expenses for the year then ended, and the related notes to the abbreviated financial statements.

In our opinion, the accompanying abbreviated financial statements present fairly, in all material respects, the financial position and the results of operations of the Reporting Entity as of and for the year ended December 31, 2021 in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Abbreviated Financial Statements section of our report. We are required to be independent of the Reporting Entity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Preparation

The abbreviated financial statements include the Coflex and CoFix product lines purchased by Xtant Medical Holdings, Inc. from Surgalign Holdings, Inc. on February 28, 2023. As discussed in Note 1 to the abbreviated financial statements, which describes the basis of preparation, the abbreviated financial statements were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in the Current Report on Form 8-K of Xtant Medical Holdings, Inc. As a result, the abbreviated financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Abbreviated Financial Statements

Management is responsible for the preparation and fair presentation of the abbreviated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the abbreviated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the abbreviated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Reporting Entity's ability to continue as a going concern for one year after the date that the abbreviated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Abbreviated Financial Statements

Our objectives are to obtain reasonable assurance about whether the abbreviated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the abbreviated financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the abbreviated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the abbreviated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Reporting Entity's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the abbreviated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Reporting Entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

/s/ Plante & Moran, PLLC
Denver, Colorado
May 16, 2023

SURGALIGN SPV, INC.
ABBREVIATED FINANCIAL STATEMENTS

Statement of Assets Acquired
(In thousands)

	<u>December 31,</u> <u>2021</u>	<u>September 30,</u> <u>2022</u> (Unaudited)
Assets:		
Inventory	\$ 186	\$ 123
Total assets acquired	<u>\$ 186</u>	<u>\$ 123</u>

See notes to abbreviated financial statements.

SURGALIGN SPV, INC.
ABBREVIATED FINANCIAL STATEMENTS

Statement of Revenues and Direct Expenses
(In thousands)

	<u>Year Ended</u> <u>December 31, 2021</u>	<u>Nine Months Ended</u> <u>September 30, 2022</u> <u>(Unaudited)</u>
Revenues	\$ 17,821	\$ 10,931
Cost of sales	639	378
Direct expenses:		
Sales and marketing	8,733	5,506
Bad debt	406	253
Total direct expenses	<u>9,139</u>	<u>5,759</u>
Revenues in excess of cost of sales and direct expenses	<u>\$ 8,043</u>	<u>\$ 4,794</u>

See notes to abbreviated financial statements.

SURGALIGN SPV, INC.

ABBREVIATED FINANCIAL STATEMENTS

Notes to Abbreviated Financial Statements

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

Description of the Transaction

On February 28, 2023, Xtant Medical Holdings, Inc., a Delaware corporation (“Xtant”), entered into an Equity Purchase Agreement (the “Equity Purchase Agreement”) with Surgalign SPV, Inc. (“Surgalign SPV”), a Delaware corporation and wholly owned subsidiary of Surgalign Spine Technologies, Inc., a Delaware corporation (“Seller”), Seller and Surgalign Holdings, Inc., a Delaware corporation, pursuant to which Xtant purchased all of the issued and outstanding shares of common stock of Surgalign SPV, which shares constituted all of the outstanding equity of Surgalign SPV, for an aggregate purchase price of \$17.0 million in cash. The closing contemplated by the Equity Purchase Agreement occurred on February 28, 2023 (the “Closing”).

Immediately prior to the Closing, Seller and its affiliates transferred and assigned to Surgalign SPV, a privately held, newly formed entity, certain intellectual property, contractual rights and other assets related to the design, manufacture, sale and distribution of its Coflex and CoFix products in the United States (the “Coflex Business”). The Coflex and CoFix products have been approved by the U.S. Food and Drug Administration for the treatment of moderate to severe lumbar spinal stenosis in conjunction with decompression and provide minimally invasive, motion preserving stabilization.

Basis of Presentation

The accompanying abbreviated financial statements, which consist of the statements of assets acquired as of December 31, 2021 and as of September 30, 2022, and related statements of revenues and direct expenses for the year ended December 31, 2021 and for the nine months ended September 30, 2022, and the related notes thereto will henceforth be collectively referred to as the “Abbreviated Financial Statements”. The Abbreviated Financial Statements were prepared for the purpose of complying with the requirements of Rule 3-05 of the U.S. Securities and Exchange Commission Regulation S-X and present the assets acquired and the related revenues and direct expenses of the Coflex Business. The Abbreviated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

It is impracticable to prepare complete financial statements of the Coflex Business as the Seller has not maintained the separate accounts necessary to present them. The Coflex Business was not a separate legal entity, subsidiary or operating segment of the Seller, it was never operated as a stand-alone business or division and it has not prepared separate financial statements in the past. As a result, the statements of revenues and direct expenses were derived from the operating activities directly attributable to the Coflex Business from the Seller’s books and records. Although Xtant management is unable to determine all of the actual costs, expenses and resulting operating results associated with the Coflex Business, it considers the allocation of such items to be reasonable for the periods presented. However, the direct expenses and revenues of the Coflex Business may differ from the results that would have been achieved had the Coflex Business operated as a separate entity during the periods presented and may not necessarily reflect the assets and liabilities or revenues and expenses of the Coflex Business on a stand-alone basis in the future. The statements of revenues and direct expenses do not include corporate overhead, such as accounting, human resources, treasury and legal support, or a provision for income taxes as the Coflex Business never functioned on a stand-alone basis. Accordingly, no allocation of these support fees or income taxes has been made to the Coflex Business.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates about future events and assumptions that may affect the following: (i) the reported amounts of assets acquired and (ii) the reported amounts of revenues, including sales discounts and allowances, and direct expenses and related disclosures at the date of the abbreviated financial statements during each reporting period.

Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences could be material.

Inventories

Inventories are valued at the lower of cost or net realizable value. Inventory is written down if it has become obsolete, has a cost basis in excess of its expected net realizable value or is in excess of expected sales. The estimate of excess quantities is subjective and primarily dependent on estimates of future demand.

(2) Revenue

Revenue is recognized upon transfer of control of promised implants in an amount that reflects the consideration it expects to receive in exchange for those products. Control is transferred at a point in time upon implantation for sales of consigned inventory. The customer is able to direct the use of, and obtain substantially all of the benefits from, the implant at the time the implant is implanted based on the terms of the contract.

Performance obligations consist mainly of transferring control of implants identified in the contracts. The transaction price is generally fixed. Payment terms vary but are generally due within 30 days of transferring control. Any discounts or rebates are estimated at the inception of the contract and recognized as a reduction of the revenue. Customers are generally not billed for shipping and handling of products. Shipping and handling costs performed after a customer obtains control of the goods are treated as a fulfillment cost and recorded as cost of sales when incurred.

(3) Subsequent Events

Xtant Management has evaluated subsequent events through May 16, 2023, the date on which these Abbreviated Financial Statements were available to be issued, and is not aware of any items that that would require adjustment to or disclosure in these Abbreviated Financial Statements and related notes.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On February 28, 2023, Xtant Medical Holdings, Inc., a Delaware corporation (“Xtant” or the “Company”), entered into an Equity Purchase Agreement (the “Equity Purchase Agreement”) with Surgalign SPV, Inc. (“Surgalign SPV”), a Delaware corporation and wholly owned subsidiary of Surgalign Spine Technologies, Inc., a Delaware corporation (“Seller”), Seller and Surgalign Holdings, Inc., a Delaware corporation, pursuant to which Xtant purchased all of the issued and outstanding shares of common stock of Surgalign SPV, which shares constituted all of the outstanding equity of Surgalign SPV, for an aggregate purchase price of \$17.0 million in cash (the “Transaction”). The Company funded the purchase price with cash on hand and approximately \$5.0 million of indebtedness incurred under its term loan. The closing contemplated by the Equity Purchase Agreement occurred on February 28, 2023 (the “Closing”).

The following tables and accompanying notes (collectively the “Pro Forma Financial Statements”) present the Company’s statements of income and balance sheet on a pro forma combined basis after giving effect to the Transaction. The information in the tables below under the heading “Unaudited Pro Forma Combined Statement of Operations” for the nine months ended September 30, 2022 and the year ended December 31, 2021 give effect to the Transaction as if it had taken place on January 1, 2021 (the “Unaudited Pro Forma Combined Statements of Operations”). The information in the table below under the heading “Unaudited Pro Forma Condensed Combined Balance Sheet” as of September 30, 2022 gives effect to the Transaction as if it had taken place on September 30, 2022 (the “Unaudited Pro Forma Condensed Combined Balance Sheet”).

The pro forma adjustments are based upon currently available information and certain assumptions that the Company’s management believes are reasonable. The unaudited pro forma combined financial information is presented for informational purposes only and is not intended to present or be indicative of what the results of operations or financial position would have been had the events actually occurred on the dates indicated, nor is it meant to be indicative of future results of operations or financial position for any future period or as of any future date. The unaudited pro forma combined financial information does not give effect to the potential impact of current financial conditions, or any anticipated revenue enhancements, cost savings or operating synergies that may result from the Transaction.

The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X, Pro Forma Financial Information, as amended by the final rule, Release No. 33-10786 “Amendments to Financial Disclosures about Acquired and Disposed Businesses”, which is herein referred to as Article 11, and are being provided pursuant to Rule 3-05 of Regulation S-X as the Acquisition constitutes a significant acquisition.

Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction and the option to present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur (“Management’s Adjustments”). The Company has elected not to present Management’s Adjustments in the following unaudited pro forma condensed combined financial information.

Unaudited Pro Forma Condensed Combined Balance Sheet
September 30, 2022
(In thousands)

	<u>Xtant (Historical)</u>	<u>Surgalign SPV (Historical)</u>	<u>Transaction Accounting Adjustments</u>	<u>Notes</u>	<u>Pro Forma Combined</u>
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 17,363	\$ —	\$ (12,000)	5(a), 5(b)	\$ 5,363
Restricted cash	240	—	—		240
Trade accounts receivable, net of allowance for credit losses and doubtful accounts of \$549	9,839	—	—		9,839
Inventories	16,993	123	895	5(c)	18,011
Prepaid and other current assets	673	—	—		673
Total current assets	<u>45,108</u>	<u>123</u>	<u>(11,105)</u>		<u>34,126</u>
Property and equipment, net	5,669	—	947	5(d)	6,616
Right-of-use asset, net	1,490	—	—		1,490
Other assets	219	—	—		219
Intangible assets, net	358	—	10,600	5(e)	10,958
Goodwill	3,205	—	4,435	4	7,640
Total Assets	<u>\$ 56,049</u>	<u>\$ 123</u>	<u>\$ 4,877</u>		<u>\$ 61,049</u>
LIABILITIES & STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable	\$ 3,779	\$ —	\$ —		\$ 3,779
Accrued liabilities	5,021	—	—		5,021
Current portion of lease liability	443	—	—		443
Current portion of finance lease obligations	61	—	—		61
Line of credit	720	—	—		720
Current portion of long-term debt	1,335	—	554	5(b)	1,889
Total current liabilities	<u>11,359</u>	<u>—</u>	<u>554</u>		<u>11,913</u>
Long-term Liabilities:					
Lease liability, less current portion	1,094	—	—		1,094
Finance lease obligation, less current portion	197	—	—		197
Long-term debt, plus premium and less issuance costs	10,626	—	4,446	5(b)	15,072
Total Liabilities	<u>23,276</u>	<u>—</u>	<u>5,000</u>		<u>28,276</u>
Commitments and Contingencies					
Stockholders' Equity:					
Preferred stock, \$0.000001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—	—		—
Common stock, \$0.000001 par value; 300,000,000 shares authorized; 101,981,250 shares issued and outstanding as of September 30, 2022	—	—	—		—
Additional paid-in capital	274,234	—	—		274,234
Accumulated deficit	(241,461)	—	—		(241,461)
Total Stockholders' Equity	<u>32,773</u>	<u>—</u>	<u>—</u>		<u>32,773</u>
Total Liabilities & Stockholders' Equity	<u>\$ 56,049</u>	<u>\$ —</u>	<u>\$ 5,000</u>		<u>\$ 61,049</u>

See notes to unaudited pro forma condensed combined financial statements.

Unaudited Pro Forma Condensed Combined Statement of Operations

For the Nine Months Ended September 30, 2022

(In thousands)

	<u>Xtant (Historical)</u>	<u>Surgalign SPV (Historical)</u>	<u>Transaction Accounting Adjustments</u>	<u>Notes</u>	<u>Pro Forma Combined</u>
Revenue					
Orthopedic product sales	\$ 42,689	\$ 10,931	\$ —		\$ 53,620
Other revenue	10	—	—		10
Total Revenue	42,699	10,931	—		53,630
Cost of sales					
Cost of sales	18,868	378	164	5(c)	19,410
Gross Profit	23,831	10,553	(164)		34,220
Operating Expenses					
General and administrative	11,496	253	1,130	5(e)	12,879
Sales and marketing	16,683	5,506	43	5(d)	22,232
Research and development	683	—	—		683
Total Operating Expenses	28,862	5,759	1,173		35,794
(Loss) Income from Operations	(5,031)	4,794	(1,337)		(1,574)
Other Expense					
Interest expense	(1,197)	—	(189)	5(b)	(1,386)
Total Other Expense	(1,197)	—	(189)		(1,386)
Net (Loss) Income from Operations Before Provision for Income Taxes	(6,228)	4,794	(1,526)		(2,960)
Provision for Income Taxes Current and Deferred	(48)	—	—		(48)
Net (Loss) Income	\$ (6,276)	\$ 4,794	\$ (1,526)		\$ (3,008)
Net Loss Per Share:					
Basic	\$ (0.07)				\$ (0.03)
Dilutive	\$ (0.07)				\$ (0.03)
Shares used in the computation:					
Basic	89,236,832				89,236,832
Dilutive	89,236,832				89,236,832

See notes to unaudited pro forma condensed combined financial statements.

Unaudited Pro Forma Combined Statement of Operations

For the Year Ended December 31, 2021

(In thousands)

	<u>Xtant (Historical)</u>	<u>Surgalign SPV (Historical)</u>	<u>Transaction Accounting Adjustments</u>	<u>Notes</u>	<u>Pro Forma Combined</u>
Revenue					
Orthopedic product sales	\$ 55,146	\$ 17,821	\$ —		\$ 72,967
Other revenue	117	—	—		117
Total Revenue	<u>55,263</u>	<u>17,821</u>	<u>—</u>		<u>73,084</u>
Cost of sales					
Cost of sales	22,773	639	186	5(c)	23,598
Gross Profit	<u>32,490</u>	<u>17,182</u>	<u>(186)</u>		<u>49,486</u>
Operating Expenses					
General and administrative	14,449	406	1,507	5(e)	16,362
Sales and marketing	21,025	8,733	(204)	5(d)	29,554
Research and development	870	—	—		870
Total Operating Expenses	<u>36,344</u>	<u>9,139</u>	<u>1,303</u>		<u>46,786</u>
(Loss) Income from Operations	<u>(3,854)</u>	<u>8,043</u>	<u>(1,489)</u>		<u>2,700</u>
Other Expense					
Interest expense	(995)	—	(1,282)	5(b)	(2,277)
Total Other Expense	<u>(995)</u>	<u>—</u>	<u>(1,282)</u>		<u>(2,277)</u>
Net (Loss) Income from Operations Before Provision for Income Taxes	<u>(4,849)</u>	<u>8,043</u>	<u>(2,771)</u>		<u>423</u>
Provision for Income Taxes Current and Deferred	—	—	—		—
Net (Loss) Income	<u>\$ (4,849)</u>	<u>\$ 8,043</u>	<u>\$ (2,771)</u>		<u>\$ 423</u>
Net Loss Per Share:					
Basic	\$ (0.06)				\$ 0.00
Dilutive	\$ (0.06)				\$ 0.00
Shares used in the computation:					
Basic	85,456,175				85,456,175
Dilutive	85,456,175				86,070,797

See notes to unaudited pro forma condensed combined financial statements.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(In thousands)

(1) Description of the Transaction

On February 28, 2023, Xtant Medical Holdings, Inc., a Delaware corporation (“Xtant” or the “Company”), entered into an Equity Purchase Agreement (the “Equity Purchase Agreement”) with Surgalign SPV, Inc. (“Surgalign SPV”), a Delaware corporation and wholly owned subsidiary of Surgalign Spine Technologies, Inc., a Delaware corporation (“Seller”), Seller and Surgalign Holdings, Inc., a Delaware corporation, pursuant to which Xtant purchased all of the issued and outstanding shares of common stock of Surgalign SPV, which shares constituted all of the outstanding equity of Surgalign SPV, for an aggregate purchase price of \$17.0 million in cash. Xtant funded the purchase price with cash on hand and approximately \$5.0 million of indebtedness incurred under its term loan. The closing contemplated by the Equity Purchase Agreement occurred on February 28, 2023 (the “Closing”).

Immediately prior to the Closing, Seller and its affiliates transferred and assigned to Surgalign SPV, a privately held, newly formed entity, certain intellectual property, contractual rights and other assets related to the design, manufacture, sale and distribution of its Coflex and CoFix products in the United States. The Coflex and CoFix products have been approved by the U.S. Food and Drug Administration for the treatment of moderate to severe lumbar spinal stenosis in conjunction with decompression and provide minimally invasive, motion preserving stabilization.

(2) Basis of Pro Forma Presentation

The historical financial information of the Company being presented in these Unaudited Pro Forma Financial Statements is derived from the Company’s unaudited condensed consolidated statement of operations for the nine months ended September 30, 2022, audited consolidated statement of operations for the fiscal year ended December 31, 2021 and unaudited condensed consolidated balance sheet as of September 30, 2020, which were prepared in accordance with U.S. GAAP.

The historical financial information of Surgalign SPV being presented in these Unaudited Pro Forma Financial Statements is based on the Abbreviated Statements of Assets Acquired and Abbreviated Statements of Revenues and Direct Expenses (the “Abbreviated Financial Statements”), which are in an abbreviated format and are presented in lieu of the financial information otherwise required by Rule 3-05 of Regulation S-X. The historical abbreviated financial information of Surgalign SPV is derived (“carved-out”) from the Seller’s consolidated financial statements, including the unaudited condensed combined statement of comprehensive loss for the nine months ended September 30, 2022, the audited combined statement of comprehensive loss for the year ended December 31, 2021 and the unaudited condensed combined balance sheet as of September 30, 2022, which were prepared in accordance with U.S. GAAP. Note 1 to the Abbreviated Financial Statements included in Exhibit 99.1 of this Form 8-K/A provides further information regarding the basis of presentation in the Abbreviated Financial Statements. The Abbreviated Financial Statements only reflect the assets conveyed in the Equity Purchase Agreement, and do not purport to reflect the financial position and results of operations of Surgalign SPV, had such business operated on a stand-alone basis during the periods presented.

The acquisition of Surgalign SPV will be accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations, using the fair value concepts defined in ASC 820, Fair Value Measurements and Disclosures. Xtant has been treated as the acquirer for financial reporting purposes. Accordingly, the purchase consideration allocated to the assets and liabilities of Surgalign SPV for preparation of these pro forma financial statement is based upon their estimated preliminary fair values assuming the Transaction was completed as of September 30, 2022. The amount of the purchase consideration that was in excess of the estimated preliminary fair values of the assets acquired on September 30, 2022 is recorded as goodwill in the unaudited pro forma condensed combined balance sheet.

As of the date of the Current Report on Form 8-K to which these unaudited pro forma combined financial statements are filed as an exhibit, the Company has not completed detailed valuation studies necessary to arrive at the final estimates of the fair value of the total assets to be acquired and the related allocations of purchase price. As indicated in Note 5 to these unaudited pro forma condensed combined financial statements, Management has made certain adjustments to the historical book values of the assets acquired to reflect preliminary estimates of fair value necessary to prepare the unaudited pro forma condensed combined financial statements, with the excess of the purchase price over the adjusted historical net assets of the assets acquired recorded as goodwill. Actual results may differ from these unaudited pro forma condensed combined financial statements once Management has completed the valuation studies necessary to finalize the required purchase price allocations and identified. There can be no assurance that such finalization will not result in material changes. The preliminary unaudited pro forma purchase price allocation has been made solely for preparing these unaudited pro forma condensed combined financial statements.

(3) Accounting Policies

As part of preparing these unaudited pro forma condensed combined financial statements, Management conducted an initial review of the accounting policies of the Seller to determine if differences in accounting policies require reclassification of results of operations or reclassification of assets to conform to Xtant's accounting policies and classifications. During the preparation of these unaudited pro forma condensed combined financial statements, Management did not become aware of any material differences between accounting policies of Xtant and the Seller.

(4) Preliminary Purchase Price Allocations

The Company purchased all of the issued and outstanding shares of common stock of Surgalign SPV, which shares constituted all of the outstanding equity of Surgalign SPV, for an aggregate purchase price of \$17.0 million in cash. The Company funded the Purchase Price with cash on hand and approximately \$5.0 million of indebtedness incurred under its existing term loan.

The table below represents the preliminary allocation of the total consideration for Surgalign SPV's assets based on management's preliminary estimate of their respective fair values as of February 28, 2023 (in thousands):

Inventories	\$	1,018
Equipment		947
Intangible assets		10,600
Total assets acquired		<u>12,565</u>
Goodwill		<u>4,435</u>
Total preliminary purchase consideration	\$	<u><u>17,000</u></u>

The acquisition was recorded by allocating the costs of the net assets acquired based on their estimated fair values at the acquisition date. The fair values were based on management's analysis, including work performed by third-party valuation specialists. Management's estimates and assumptions are subject to change during the measurement period (up to one year from the acquisition date) as we finalize our valuations of assets acquired and liabilities assumed in connection with the acquisition. The primary areas of the purchase price allocation that are not yet finalized relate to identifiable intangible assets and goodwill.

(5) Transaction Accounting Adjustments

The transaction accounting adjustments are based on the Company's preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the Unaudited Pro Forma Financial Statements:

(a) Purchase Consideration

Reflects the adjustments to record cash paid at closing of \$17 million, including the incurrence of \$5 million additional indebtedness under the Company's existing term loan.

(b) Debt and Interest Expense

Reflects the incurrence of \$5 million additional indebtedness under the Company's existing term loan, of which, \$4.4 million is reflected as an increase in long-term borrowings and \$0.6 million as current.

Components of pro forma interest expense are summarized in the table below:

	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
Interest expense on the Notes	\$ 1,001	\$ 1,873
Amortization of debt issuance cost	59	113
Accretion of final payment	65	124
Total pro forma interest expense on existing Notes	1,125	2,110
Historical other interest expense	261	167
Pro forma combined interest expense	<u>\$ 1,386</u>	<u>\$ 2,277</u>

The effective rate of the term loan, inclusive of amortization of debt issuance costs and accretion of the final payment presented above was 13.3% as of Closing. The use of the Closing date effective interest rate for the presentation of interest expense results in an increase of \$0.3 million and \$0.6 million from the historical effective interest rate of 9.52% for the nine months ended September 30, 2022, and year ended December 31, 2021, respectively.

(c) Inventory and Cost of Sales

Reflects the adjustments to record inventories at their estimated fair value as of the date of the Transaction of \$1.0 million and to eliminate the historical carrying value of \$0.1 million. The Company recorded additional cost of sales of \$0.2 million for both the nine months ended September 30, 2022, and the year ended December 31, 2021, in connection with the sell-through of inventory at the stepped-up fair value.

(d) Property and Equipment and Depreciation

Reflects the adjustments to record property and equipment at their estimated fair value as of the date of the Transaction of \$0.9 million. There was no historically recorded book value to eliminate. In connection with the recorded fair value the Company recorded additional depreciation expense of \$0.1 million and \$0.2 million for the nine months ended September 30, 2022, and year ended December 31, 2021, respectively. The historical purchase expense related to equipment of \$0.1 million and \$0.4 million was eliminated.

(e) Intangibles and Amortization

Reflects the adjustments to record intangible assets at the estimated fair value of \$10.6 million. In connection with the recorded fair value the Company recorded additional amortization expense of \$1.1 million and \$1.5 million for the nine months ended September 30, 2022, and year ended December 31, 2021, respectively.
