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

FORM 8-K

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

Date of Report (Date of earliest event reported): **September 3, 2024**

XTANT MEDICAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**001-34951**	**20-5313323**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

664 Cruiser Lane Belgrade, Montana	**59714**
(Address of principal executive offices)	(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. ☐

Item 8.01 Other Events.

As previously reported in a Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") by Xtant Medical Holdings, Inc., a Delaware corporation (the "Company"), on August 10, 2023 (the "Original Form 8-K"), the Company acquired substantially all of the assets and certain specified liabilities of Surgalign Holdings, Inc., a Delaware corporation (the "Seller"), and its subsidiaries pursuant to the Asset Purchase Agreement, dated June 18, 2023, between the Seller and the Company (the "Acquisition"). On August 10, 2023, the Company completed the Acquisition.

On October 26, 2023, the Company amended the Original Form 8-K to amend and supplement the Original Form 8-K to include historical financial statements of the Seller and pro forma financial information as required by Items 9.01(a) and 9.01(b), respectively, of Form 8-K and that were excluded from the Original Form 8-K in reliance on the instructions to such items (the "Amendment").

The Company intends to file a registration statement on Form S-3 with the SEC, and this Current Report on Form 8-K is being filed to provide updated financial statements of the Seller for the six months ended June 30, 2023 (unaudited) and for the year ended December 31, 2022 and pro forma financial information for the year ended December 31, 2023 (collectively, the "Updated Financial Information"). The Updated Financial Information updates and supplements the financial statements and pro forma information contained in Exhibit 99.1, Exhibit 99.2 and Exhibit 99.3 to the Amendment. To the extent that the information in this Current Report on Form 8-K differs from or updates information contained in the Amendment, the information in this Current Report on Form 8-K shall supersede or supplement the information in the Amendment.

The pro forma financial information included in Item 9.01(b) of this Current Report on Form 8-K has been presented for informational purposes only, as required by Form S-3. It does not purport to represent the actual results or project future operating results of the Company following the Acquisition.

Item 9.01 Financial Statements and Exhibits.

(a) Financial statements of businesses or funds acquired.

The financial statements of the Seller as of and for the six months ended June 30, 2023 and 2022 (unaudited) are filed as Exhibit 99.1 to this Current Report on Form 8-K and incorporated herein by reference.

(b) Pro forma financial information.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2023 and notes to the unaudited pro forma condensed combined financial information of the Company, all giving effect to the Acquisition, are filed as Exhibit 99.2 to this Current Report on Form 8-K and incorporated herein by reference.

(d) Exhibits.

Exhibit No.	Description
99.1	Historical Financial Statements of Surgalign Holdings, Inc. as of and for the Six Months Ended June 30, 2023 and 2022 (unaudited)
99.2	Unaudited Pro Forma Condensed Combined Financial Information of Xtant Medical Holdings, Inc.
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: September 3, 2024

Exhibit 99.1

SURGALIGN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited, in thousands, except share data)

	June 30, 2023	December 31, 2022
Assets		
Current Assets:		
Cash and cash equivalents	$ 14,992	$ 16,295
Accounts receivable - less allowances of $9,890 at June 30, 2023 and $9,861 at December 31, 2022	10,058	16,057
Inventories - current	9,400	17,710
Prepaid and other current assets	4,896	6,649
Total current assets	$ 39,346	$ 56,711
Non-current inventories	6,148	5,947
Property and equipment - net	1,921	2,057
Other assets - net	5,713	5,527
Total assets	$ 53,128	$ 70,242
Liabilities, Mezzanine Equity and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 5,253	$ 7,705
Accrued expenses	12,090	13,146
Accrued income taxes	402	296
Total current liabilities	$ 17,745	$ 21,147
Acquisition contingencies – Holo	22,995	24,061
Warrant liability	—	22,982
Notes payable - related party	10,244	10,192
Other long-term liabilities	7,906	7,583
Total liabilities	$ 58,890	$ 85,965
Commitments and contingencies (Note 17)		
Mezzanine equity	10,006	10,006
Stockholders' equity:		
Common stock, $.001 par value: 300,000,000 shares authorized; 9,176,688 and 7,860,369 shares issued and outstanding, as of June 30, 2023 and December 31, 2022, respectively	8	7
Additional paid-in capital	611,397	607,245
Accumulated other comprehensive loss	(2,838)	(2,840)
Accumulated deficit	(618,392)	(624,218)
Less treasury stock, 76,769 and 66,641 shares, as of June 30, 2023 and December 31, 2022, respectively, at cost	(5,943)	(5,923)
Total stockholders' equity	$ (15,768)	$ (25,729)
Total liabilities, mezzanine equity and stockholders' equity	$ 53,128	$ 70,242

See notes to unaudited condensed consolidated financial statements.

SURGALIGN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, in thousands, except share and per share data)

	For the Six Months Ended June 30,	
	2023	**2022**
Revenues	$ 30,293	$ 41,228
Cost of goods sold	10,341	12,824
Gross profit	19,952	28,404
Operating Expenses:		
General and administrative	40,784	49,606
Severance and restructuring costs	932	—
Research and development	5,810	8,530
Gain on acquisition contingency	(1,066)	(10,493)
Asset impairment and abandonments	637	1,935
Transaction and financing expenses	463	1,138
Total operating expenses	47,560	50,716
Gain on sale of Coflex	(12,631)	—
Operating loss	(14,977)	(22,312)
Other (income) expense - net		
Other (income) expense - net	(295)	49
Interest expense	504	504
Foreign exchange (gain) loss	(480)	1,409
Change in fair value of warrant liability	(20,800)	(18,867)
Total other income - net	(21,071)	(16,905)
Income before income tax provision	6,094	(5,407)
Income tax provision	268	254
Net income (loss) from operations	5,826	(5,661)
Other comprehensive income (loss)		
Unrealized foreign currency translation gain	(1,020)	(422)
Total other comprehensive income (loss)	6,846	(5,239)
Net income (loss) per common share - basic	0.72	(0.92)
Net income (loss) per common share - diluted	0.66	(0.92)
Weighted average shares outstanding - basic	8,072,339	6,174,273
Weighted average shares outstanding - diluted	8,766,184	6,174,273

See notes to unaudited condensed consolidated financial statements.

SURGALIGN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited, in thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock	Total	Mezzanine Equity
Balance, January 1, 2023	$ 7	$ 607,245	$ (2,840)	$ (624,218)	$ (5,923)	$ (25,729)	$ 10,006
Net income	—	—	—	4,145	—	4,145	—
Foreign currency translation adjustment	—	—	(509)	—	—	(509)	—
Share offering	—	—	—	—	—	—	—
Prefunded warrant execution	1	2,182	—	—	—	2,183	—
Equity instruments issued in connection with the Holo acquisition	—	—	—	—	—	—	—
Stock-based compensation	—	995	—	—	—	995	—
Purchase of treasury stock	—	—	—	—	(20)	(20)	—
Balance, March 31, 2023	$ 8	$ 610,422	$ (3,349)	$ (620,073)	$ (5,943)	$ (18,935)	$ (10.006)
Net Income	—	—	—	1,681	—	1,681	—
Foreign currency translation adjustment	—	—	511	—	—	511	—
Stock-based compensation	—	975	—	—	—	975	—
Balance, June 30, 2023	$ 8	$ 611,397	$ (2,838)	$ (618,392)	$ (5,943)	$ (15,768)	$ 10,006

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock	Total	Mezzanine Equity
Balance, January 1, 2022	$ 75	$ 585,517	$ (1,820)	$ (569,613)	$ (5,852)	$ 8,237	$ 10,006
Net income	—	—	—	27	—	27	—
Foreign currency translation adjustment	—	—	(109)	—	—	(109)	—
Share offering	1	8,487	—	—	—	8,488	—
Prefunded warrant execution	—	1,749	—	—	—	1,749	—
Equity instruments issued in connection with the Holo acquisition	—	5,918	—	—	—	5,919	—
Stock-based compensation	—	1,374	—	—	—	1,374	—
Purchase of treasury stock	—	—	—	—	(5)	(5)	—
Balance, March 31, 2022	$ 7	$ 603,042	$ (1,929)	$ (569,586)	$ (5,857)	$ 25,680	$ (10.006)
Net Income	—	—	—	(5,688)	—	(5,688)	—
Foreign currency translation adjustment	—	—	(313)	—	—	(313)	—
Stock-based compensation	—	971	—	—	—	971	—
Purchase of stock in the ESPP Plan	—	186	—	—	—	186	—
Purchase of treasury stock	—	—	—	—	(51)	(51)	—
Other	—	50	—	—	—	50	—
Balance, June 30, 2022	$ 7	$ 604,252	$ (2,242)	$ (575,274)	$ (5,908)	$ 20,835	$ 10,006

See notes to unaudited condensed consolidated financial statements.

SURGALIGN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	For the Six Months Ended June 30, 2023	For the Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net income (loss)	$ 5,826	$ (5,661)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization expense	999	1,180
Provision for bad debts and product returns	58	700
Investor fee	—	916
Change in fair value of warrant liability	(20,800)	(18,867)
Provision for inventory write-downs	430	3,804
Deferred income tax provision	(42)	—
Stock-based compensation	1,970	2,299
Asset impairment and abandonments	553	1,935
Gain on acquisition contingency	(1,066)	(10,493)
Gain on sale of Coflex	(12,631)	—
Other	(35)	(3)
Change in assets and liabilities:		
Accounts receivable	5,941	(2,082)
Inventories	5,510	(4,767)
Accounts payable	(2,452)	446
Accrued expenses	(2,733)	(7,025)
Right-of-use asset and lease liability	(360)	223
Other operating assets and liabilities	1,879	4,986
Net cash used in operating activities	$ (16,953)	$ (32,409)
Cash flows from investing activities:		
Purchases of property and equipment	(1,297)	(3,034)
Disposal of Coflex	17,000	—
Patent and acquired intangible asset costs	(35)	(184)
Net cash provided by (used in) investing activities	$ 15,668	$ (3,218)
Cash flows from financing activities:		
Share offering proceeds including prefunded warrant exercised, net	—	17,729
Payment of Holo Milestones - contingent consideration	—	(4,081)
Proceeds from Employee Stock Purchase Program (ESPP)	—	186
Pre-funded warrant execution	1	—
Payments for treasury stock	(20)	(56)
Net cash (used in) provided by financing activities	$ (19)	$ 13,778
Effect of exchange rate changes on cash and cash equivalents	1	(94)
Net decrease in cash and cash equivalents	(1,303)	(21,943)
Cash and cash equivalents, beginning of period	16,295	51,287
Cash and cash equivalents, end of period	$ 14,992	$ 29,344
Supplemental cash flow disclosure:		
Net income tax payments, net of refunds	$ 476	$ 1,548
Non-cash acquisition of property and equipment	9	189
Non-cash common stock issuance - Holo Milestones contingent considerations	—	5,919

See notes to unaudited condensed consolidated financial statements.

1. Business

Surgalign Holdings, Inc. (the "Company", "we," "us," or "our") is a global medical technology company. We market and sell products to hospitals, ambulatory surgery centers, and healthcare providers in the United States and in approximately 40 countries worldwide. We are headquartered in Deerfield, Illinois, with commercial, innovation and design centers in San Diego, California; Wurmlingen, Germany; and Warsaw, Poland. The Company operates one reportable segment: Spine.

Disposition of Coflex and Cofix Product Lines

On February 28, 2023, pursuant to an Equity Purchase Agreement (the "Coflex Purchase Agreement") by and among the Company's indirect subsidiary, Surgalign SPV, Inc., a Delaware corporation ("Surgalign SPV"), Surgalign Spine Technologies, Inc, a Delaware corporation and sole stockholder of Surgalign SPV (the "Seller"), the Company, and Xtant Medical Holdings, Inc., a Delaware corporation ("Xtant"), Xtant acquired 100% of the issued and outstanding equity of Surgalign SPV from the Seller (the "Coflex Transaction"). The aggregate consideration paid in the Coflex Transaction was $17.0 million in cash which resulted in net proceeds of $14.8 million to the Company after transaction fees of $2.2 million which were paid to the financial advisors and lawyers associated with the transaction.

As a result of the Coflex Transaction, Xtant acquired the Coflex and Cofix product lines in the United States which had a net book value of $2.2 million as of the date of the Coflex Transaction. The net book value of the assets was entirely associated with the inventory of Coflex and Cofix. In addition, Xtant acquired the worldwide intellectual property rights of the Coflex and Cofix product lines, which had no book value as of the date of the transaction. No other assets or liabilities were transferred to Xtant and as such the Company recorded a gain of $12.6 million related to the Coflex Transaction. In connection with the Coflex Transaction, the Seller, Surgalign SPV and Xtant also entered into a Transition Services Agreement, dated as of February 28, 2023 (the "Transition Services Agreement"), pursuant to which the Seller agreed to provide certain transition services to Xtant immediately after the closing for an agreed upon transition period.

Reverse Stock Split

On May 10, 2022, the stockholders of the Company approved the proposal to authorize the Company's Board of Directors (the "Board") to amend the Company's Amended and Restated Certificate of Incorporation to effect a reverse stock split of the Company's common stock (the "Reverse Stock Split"). Following Board approval on May 11, 2022, the Reverse Stock Split became effective on May 16, 2022 at a 1-for-30 ratio. The Reverse Stock Split did not modify any rights or preferences of the shares of the Company's common stock. Proportionate adjustments were made to the exercise prices and the number of shares underlying the Company's outstanding equity awards, as applicable, and warrants, as well as to the number of shares issued and issuable under the Company's equity incentive plans. The Reverse Stock Split did not affect the number of authorized shares of common stock or the par value of the common stock. Unless we indicate otherwise, all per share amounts and references to common shares and common share amounts in these financial statements reflect the Reverse Stock Split, and the accompanying financial statements and notes to the financial statements give effect to the Reverse Stock Split and have been retroactively applied.

Going Concern and Liquidation

The accompanying condensed consolidated financial statements of the Company have been prepared assuming the Company will continue as a going concern and in accordance with generally accepted accounting principles in the United States of America. On August 10, 2023, Xtant acquired substantially all of the assets and certain specified liabilities of the Company, and its subsidiaries pursuant to the Asset Purchase Agreement, dated June 18, 2023, between the Company and Xtant.

2. Basis of Presentation

The accompanying condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, which the Company considers necessary for a fair presentation of the results of operations for the periods shown. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X, and therefore, do not include all information and footnotes necessary for a fair presentation of the condensed consolidated financial position, results of operations, comprehensive loss and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of our condensed consolidated financial statements in accordance with GAAP often requires us to make estimates and judgments that affect reported amounts. These estimates and judgments are based on historical experience and assumptions that we believe to be reasonable under the circumstances. Assumptions and judgments based on historical experience may provide reported results, which differ from actual results; however, these assumptions and judgments historically have not varied significantly from actual experience, and we therefore do not expect them to vary significantly in the future. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year. The Company includes acquisition, disposal, integration and separation related costs, which are predominantly composed of legal, consulting, and advisor fee expenses, within the "Transaction and integration expense" line on the condensed consolidated statements of comprehensive income.

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Surgalign Spine Technologies, Inc., Paradigm Spine, LLC (“Paradigm”), Pioneer Surgical Technology, Inc. (“Pioneer Surgical”), Holo Surgical Inc. (“Holo Surgical”), and Prompt Prototypes, LLC (“Prompt”). The operating results of the disposed OEM Businesses have been reported as discontinued operations in the condensed consolidated financial statements in the prior comparative periods. The Company consolidates the accounts of Inteneural Networks Inc. (“INN”), a 42% owned subsidiary, as control was achieved through means other than voting rights (“variable interest entities” or “VIE”) as the Company is deemed to be the primary beneficiary of INN.

For further information on the Company’s significant accounting policies, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission (“SEC”) on March 30, 2023.

Accounting Standards Issued But Not Yet Adopted

To date, there have been no recent accounting pronouncements not yet effective that have a material, or potentially material, impact to our consolidated financial statements.

Significant New Accounting Policies

There are no new accounting policies effective for this reporting period that have a material impact on the financial statements.

3. Leases

The Company’s leases are classified as operating leases that include office space, automobiles, and copiers. The Company does not have any finance leases and the Company’s operating leases do not have any residual value guarantees, restrictions, or covenants.

The Company’s leases have remaining lease terms of 1 to 7 years, some of which include options to extend or terminate the leases. The option to extend is only included in the lease term if the Company is reasonably certain of exercising that option. Operating lease ROU assets are presented within “Other assets-net” on the condensed consolidated balance sheets. The current portion of operating lease liabilities are presented within “Accrued expenses,” and the non-current portion of operating lease liabilities are presented within “Other long-term liabilities” on the condensed consolidated balance sheets. The Company’s lease agreements do not provide a readily determinable implicit rate nor is it available to the Company from its lessors. Instead, the Company estimates its incremental borrowing rate based on information available at lease commencement in order to discount lease payments to present value. Short-term leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets.

A subset of the Company’s automobile and copier leases contain variable payments. The variable lease payments for such automobile leases are based on actual mileage incurred at the standard contractual rate. The variable lease payments for such copier leases are based on actual copies incurred at the standard contractual rate. The variable lease costs for all leases are immaterial.

Supplemental cash flow information related to operating leases was as follows:

	For the Six Months Ended June 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities	$ 225	$ 686
ROU assets obtained in exchange for lease obligations	149	—

4. Revenue from Contracts with Customers

The Company recognizes revenue upon transfer of control of promised products in an amount that reflects the consideration it expects to receive in exchange for those products. The Company typically transfers control at a point in time upon shipment or delivery of the implants for direct sales, or 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 shipped, delivered, or implanted, based on the terms of the contract.

Disaggregation of Revenue

The Company's entire revenue for the six months ended June 30, 2023 and 2022 was recognized at a point in time. The following table represents total revenue by geographical region for the six months ended June 30, 2023 and 2022, respectively:

	For the Six Months Ended June 30,	
	2023	2022
Revenues:		
Domestic	$ 24,463	$ 34,299
International	5,830	6,929
Total revenues from contracts with customers	$ 30,293	$ 41,228

5. Inteneural Networks Inc.

The Company acquired a 42% equity interest in INN on December 30, 2021 and has a non-exclusive right to use its proprietary technology. Management has determined that the Company obtained control through means other than voting rights as the Company is deemed to be the primary beneficiary and is the most closely associated decision maker under ASC 810, *Consolidation.* Based on this, the Company has considered INN to be a VIE, and INN was fully consolidated into the condensed consolidated financial statements as of June 30, 2023. INN does not have any assets or liabilities as of June 30, 2023 and December 31, 2022. Additionally, there was no income statement activity within INN for the six months ended June 30, 2023 and 2022.

As part of the acquisition, the Company has the ability to acquire the remaining 58% equity interest in INN based on the achievement of three separate regulatory and revenue based milestones. The Company will pay $19.3 million for each individual milestone achieved, resulting in a corresponding additional 19.3% equity interest in INN per milestone achieved. None of the three milestones has been achieved as of June 30, 2023.

6. Stock-Based Compensation

The following tables summarize our stock option and stock grant awards by plan:

For the six months ended June 30, 2023:

Plan	Stock Options	Restricted Stock Awards	Restricted Stock Units	Total
2021 Incentive Inducement Plan	—	—	—	—
2021 Incentive Compensation Plan	—	—	5,000	5,000
Total	—	—	5,000	5,000

For the six months ended June 30, 2022:

Plan	Stock Options	Restricted Stock Awards	Restricted Stock Units	Total
2021 Incentive Inducement Plan	—	—	116,948	116,948
2021 Incentive Compensation Plan	—	—	4,277	4,277
Total	—	—	121,225	121,225

The Company recognized stock-based compensation as follows:

	For the Six Months Ended June 30,	
	2023	2022
Stock-based compensation:		
General and administrative	$ 868	$ 2,123
Research and development	117	176
Total	$ 985	$ 2,299

The expense in the table above represents stock-based compensation for outstanding awards, and related expenses for the Company's employee stock purchase program.

7. Net Income Per Common Share

For the six months ended June 30, 2023, the Company has recorded net income from operations. As a result, the Company has included a reconciliation presenting income and loss activity utilized to calculate basic earnings per share and diluted earnings per share. Diluted earnings per share is adjusted for the impact of changes in the fair value of the pre-funded warrants and warrants to the extent they are dilutive:

	For the Six Months Ended June 30,	
	2023	2022
Net income (loss) from continuing operations-basic	$ 5,826	$ (5,661)
Effect of diluted stock options	—	—
Effect of diluted restricted stock units and restricted stock awards	—	—
Effect of diluted pre-funded warrants	(1,415)	—
Effect of diluted warrants	—	—
Net (loss) income from continuing operations-diluted	$ 4,411	$ (5,661)

A reconciliation of the number of shares of common stock used in the calculation of basic and diluted net loss per common share is presented below:

	For the Six Months Ended June 30,	
	2023	2022
Weighted average basic shares	$ 8,072,339	$ 6,174,273
Stock options	—	—
Restricted stock units and restricted stock awards	639,845	—
Pre-funded warrants	—	—
Warrants	—	—
Weighted average diluted shares	$ 8,766,184	$ 6,174,273

For the six months ended June 30, 2023 and 2022, the Company excluded 73,891 and 103,982, respectively, of issued stock options in the computation of diluted net income (loss) per common share because their exercise price exceeded the average market price during the respective periods. The Company's outstanding warrants were also excluded from the computation of diluted net loss per common share as they were considered "out-of-the-money" as of June 30, 2023 and 2022.

8. Inventories

The inventory balances as of June 30, 2023 and December 31, 2022 consist entirely of finished goods. The Company values its inventories at the lower of net realizable value or cost using first-in, first-out ("FIFO").

For the six months ended June 30, 2023 and 2022, the Company had inventory write-downs of $0.4 million and $3.8 million, respectively, primarily related to excess quantities and obsolescence ("E&O") of inventories. The E&O write-downs are included in the "Cost of goods sold" on the condensed consolidated statements of comprehensive income. Please see Note 17 for further discussion.

9. Prepaid and Other Current Assets

Prepaid and other current assets are as follows:

	June 30, 2023	December 31, 2022
Leasehold improvement reimbursement	$ 1,564	$ 2,885
Prepaid rent-San Diego Lease Design Center	1,374	—
Income tax receivable	392	958
OEM safety stock receivable	—	900
Prepaid expenses	717	941
Other receivable	849	965
Total prepaid and other current assets	$ 4,896	$ 6,649

10. Property and Equipment

The net book value of property and equipment after accumulated depreciation and all impairment is as follows:

	June 30, 2023	December 31, 2022
Processing equipment	$ 194	$ 266
Surgical instruments	426	543
Office equipment, furniture and fixtures	1	1
Computer equipment and software	1,300	40
Construction in process	—	1,207
	$ 1,921	$ 2,057

For the six months ended June 30, 2023 and 2022, the Company recorded depreciation expense in connection with property and equipment of $1.0 million and $1.1 million, respectively. The Company uses the straight-line method of depreciation.

For the six months ended June 30, 2023 and 2022, the Company recorded asset impairment and abandonment charges of $0.6 million and $1.9 million, respectively. The fair value of property and equipment was measured utilizing an orderly liquidation value of each of the underlying assets. Refer to Note 11 for further information on impairment.

The below table summarizes the activity within the construction in progress line item, as of June 30, 2023 and December 31, 2022, which includes the capitalized software costs:

	June 30, 2023	December 31, 2022
Beginning balance as of January 1	$ 1,207	$ 51
Capitalized	422	1,207
Impairment	—	—
Assets transferred into service	(1,629)	(51)
Ending balance	$ —	$ 1,207

For the six months ended June 30, 2023 and 2022, the Company capitalized a total of $0.4 million and $0.0 million, respectively, of employee costs related to enhancements for the HOLO™ Portal surgical guidance system. In late March 2023, the related system enhancements were launched, thus leading to further functionality and operations of the system. As such the Company moved $1.6 million of costs from “Construction in process” line to the “Computer equipment and software” line on the condensed consolidated balance sheet as of June 30, 2023. As the enhancements were launched late in March 2023, the amount of amortization recorded for the period ending June 30, 2023 was immaterial. The Company has assessed the capitalized software for impairment and determined no impairment has been taken as the Company has determined cost incurred will result in additional functionality for the system.

11. Fair Value Information

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy defines a three-level valuation hierarchy for classification and disclosure of fair value measurements as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Acquisition Contingencies

Changes in the fair value of contingent consideration are recorded in the “Gain on acquisition contingency” line in the condensed consolidated statement of income. Significant changes in unobservable inputs, mainly the probability of success and projected cash flows, could result in material changes to the contingent consideration liability. The contingent consideration is evaluated quarterly, or more frequently if circumstances dictate.

Holo Surgical

On September 29, 2020, the Company entered into a stock purchase agreement (the “Holo Purchase Agreement”), with Roboticine, Inc, a Delaware corporation (the “Seller”), Holo Surgical S.A., a Polish joint-stock company (“Holo S.A.”), Pawel Lewicki, PhD (“Lewicki”), and Krzysztof Siemionow, MD, PhD (“Siemionow”), which provides for the Company to acquire all of the issued and outstanding equity interests in Holo Surgical Inc., a Delaware corporation and a wholly owned subsidiary of the Seller (“Holo Surgical”). The Seller, Holo S.A., Lewicki and Siemionow are together referred to as the “Seller Group Members.” The Acquisition was closed on October 23, 2020.

As consideration for the Holo Surgical acquisition, the Company paid to the Seller $30.0 million in cash and issued to the Seller 208,333 shares of its common stock, par value $0.001. In addition, the Seller is entitled to receive contingent consideration from the Company valued in an aggregate amount of up to $83.0 million, to be paid through the issuance of common stock or the payment of cash, contingent upon and following the achievement of certain regulatory, commercial, and utilization milestones by specified time periods occurring up to the sixth (6th) anniversary of the closing.

The Holo Purchase Agreement provides that the Company will issue common stock to satisfy any contingent consideration payable to the Seller, until the total number of shares of common stock issued to the Seller pursuant to the Holo Purchase Agreement (including the 208,333 shares of common stock issued at closing) is equal to 496,666 shares of common stock. Following the attainment of that limitation, the post-closing contingent payments would be payable in cash. The number of shares of common stock issued as contingent consideration with respect to the achievement of a post-closing milestone, if any, will be calculated based on the volume weighted average price of the Company's common stock for the five (5) day trading period commencing on the opening of trading on the third trading day following the achievement of the applicable milestone. On January 12, 2022, the Company entered into a Second Amendment to the Holo Purchase Agreement with the Seller Group Members to amend one of the regulatory milestones beyond December 31, 2021. This regulatory milestone was subsequently achieved on January 14, 2022 when the Company received 510(k) clearance for its HOLO Portal™ surgical guidance system. Upon achievement of this milestone, the Company issued 288,333 shares of its common stock at a value of $5.9 million, and paid the sellers $4.1 million in cash for a total payment for achieving the milestone of $10.0 million.

The Company determined the fair value of the Holo Milestone Payments to be the present value of each future payment amount estimated using a probability weighted model, driven by the probability of success factor and expected payment date. The probability of success factor was used in the fair value calculation to reflect inherent regulatory, development and commercial risk of the Holo Milestone Payments. More specifically, the probability of success factor included the probability of: expected achievement of the specific milestones, including risks associated with the uncertainty regarding the achievement and payment of milestones; obtaining regulatory approvals in the United States and Europe; the development of new features used with the product; the adaption of the new technology by surgeons; and the placement of the devices within the field. This fair value measurement is based on significant unobservable inputs in the market and thus represents a Level 3 measurement within the fair value hierarchy.

Inputs used in estimating the fair value of the contingent consideration for Holo Surgical as of June 30, 2023 and December 31, 2022, are summarized below:

Fair Value at June 30, 2023	Valuation Technique	Unobservable Inputs	Ranges
$ 22,995	Earn-Out Valuation	Probability of success factor	0% - 95%
		Discount rates	13.09% - 13.80%

Fair Value at December 31, 2022	Valuation Technique	Unobservable Inputs	Ranges
$ 24,061	Earn-Out Valuation	Probability of success factor	0% - 95%
		Discount rates	13.09% - 13.80%

The following table provides a reconciliation of contingent consideration measured at fair value using significant unobservable inputs (Level 3) as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Beginning balance as of January 1	$ 24,061	$ 51,928
Gain on acquisition contingency	(1,066)	(17,867)
Milestone payments	—	(10,000)
Ending balance	$ 22,995	$ 24,061

Property and Equipment, Intangibles and Other Assets

As of June 30, 2023, and December 31, 2022, respectively, property and equipment with a carrying amount of $2.9 million and $6.0 million were written down to their estimated fair value of $2.4 million and $2.3 million using Level 3 inputs. The Level 3 fair value was measured based on orderly liquidation value and is evaluated on a quarterly basis. Unobservable inputs for the orderly liquidation value included replacement costs, physical deterioration estimates and market sales data for comparable assets.

Definite-lived intangible and other assets subject to amortization were impaired and written down to their estimated fair values in 2023 and 2022. Fair value is measured as of the impairment date using Level 3 inputs. Definite-lived intangible assets and other assets' fair value was measured based on the income approach and orderly liquidation value, respectively. Due to the Company's forecasted cash flow being negative, any intangible assets acquired during the period were immediately impaired. Unobservable inputs for the orderly liquidation value included replacement costs, physical deterioration estimates and market sales data for comparable assets. Unobservable inputs for the income approach included forecasted cash flows generated from use of the definite-lived intangible assets.

As a result of impairments recognized, the following table summarizes the post impairment fair values of the corresponding assets subject to fair value measured using Level 3 inputs as of June 30, 2023 and December 31, 2022:

Net Book Value	June 30, 2023	December 31, 2022
Property and equipment – net	$ 2,421	$ 2,316
Other assets – net	5,713	5,527
	$ 8,134	$ 7,843

Property and equipment was impaired and written down to their estimated fair values during the six months ended June, 2023 and 2022. Other intangible assets and other assets were impaired and written down to their estimated fair values during the six months ended June 30, 2023 and 2022. The following table summarizes the corresponding impairment charge during the six months ended June 30, 2023 and 2022:

	For the Six Months Ended June 30,	
Impairment	2023	2022
Property and equipment – net	$ 486	$ 1,573
Definite-lived intangible assets – net	35	201
Other assets – net	32	161
	$ 553	$ 1,935

During the six months ended June 30, 2023 and 2022, the Company concluded, through its ASC 360 impairment testing of long-lived assets classified as held and used, that factors existed indicating that finite-lived intangible assets were impaired. The factors considered by management include a history of net losses and negative cash flows in each of those periods to be able to support the assets. The Company tested the carrying amounts of the property and equipment, definite lived intangibles, and other assets for impairment. As a result, we recorded an impairment charge of $0.6 million and $1.9 million for the six months ended June 30, 2023 and 2022 which was recorded within the "Asset impairment and abandonments" line item on the condensed consolidated statement of comprehensive income.

Warrant Liability

Warrants are accounted for as liabilities in accordance with ASC 815-40 and are presented within "Warrant liability" in the Company's condensed consolidated balance sheets.

The following table presents information about the Company's liabilities that are measured at fair value:

	Level	June 30, 2023	December 31, 2022
Warrant liability	3	$ —	$ 22,982

	Level	March 31, 2023	December 31, 2022
Warrant liability	3	$ 15,512	$ 22,982

June 14, 2021 Warrants

The table presented below is a summary of changes in the fair value of the Company's Level 3 valuation for the June 14, 2021 warrant liability as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Beginning balance as of January 1	$ 13	$ 12,013
Change in fair value of restricted warrants (1)	—	866
Transfer of warrants (2)	—	(929)
Change in fair value of warrant liability	(13)	(11,937)
Ending balance	$ —	$ 13

The warrant liability is revalued each reporting period with the change in fair value recorded in the accompanying condensed consolidated statements of comprehensive income until the warrants are exercised or expire. The fair value of the warrant liability is estimated using the Black-Scholes Option Pricing Model using the following valuation inputs:

February 15, 2022 Warrants

	June 30, 2023	December 31, 2022
Stock price	$ 0.00	$ 1.99
Risk-free interest rate	4.52%	4.53%
Dividend yield	—	—
Volatility	110%	110%

The table presented below is a summary of changes in the fair value of the Company's Level 3 valuation for the February 15, 2022 warrant liability as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Beginning balance as of January 1	$ 442	$ —
Fair value of warrants on date of issuance	—	10,157
Change in fair value of restricted warrants (1)	—	448
Transfer of warrants (2)	—	(1,064)
Redemption of shares	—	(1,749)
Change in fair value of warrant liability	(442)	(7,350)
Ending balance	$ —	$ 442

The warrant liability is revalued each reporting period with the change in fair value recorded in the accompanying condensed consolidated statements of comprehensive income until the warrants are exercised or expire. The fair value of the warrant liability is estimated using the Black-Scholes Option Pricing Model using the following valuation inputs:

	June 30, 2023	December 31, 2022
Stock price	$ 0.00	$ 1.99
Risk-free interest rate	3.62%	4.05%
Dividend yield	—	—
Volatility	95%	95%

November 13, 2022 Warrants

The tables presented below are a summary of changes in the fair value of the Company's Level 3 valuation for the November 13, 2022 warrant liability as of June 30, 2023 and December 31, 2022:

	June 30, 2023			
	Pre-funded Warrants	Series A Warrants	Series B Warrants	Placement Agent Warrants
Beginning balance as of March 31	$ 5,805	$ 7,672	$ 1,455	$ 355
Change in fair value of warrant liability	(5,805)	(7,672)	(1,455)	(355)
Ending balance as of June 30	$ —	$ —	$ —	$ —

	December 31, 2022			
	Pre-funded Warrants	Series A Warrants	Series B Warrants	Placement Agent Warrants
Beginning balance as of October 1	$ —	$ —	$ —	$ —
Fair value of warrants on date of issuance	12,724	10,671	2,570	596
Transfer of warrants	—	1,993	—	—
Redemption of shares	(487)	—	—	—
Change in fair value of warrant liability	(2,434)	(2,421)	(570)	(115)
Ending balance as of December 31	$ 9,803	$ 10,243	$ 2,000	$ 481

The warrant liability is revalued each reporting period with the change in fair value recorded in the accompanying consolidated statements of comprehensive income until the warrants are exercised or expire. The fair value of the warrant liability is estimated using the Black-Scholes Option Pricing Model using the following valuation inputs:

	June 30, 2023			
	Pre-funded Warrants	**Series A Warrants**	**Series B Warrants**	**Placement Agent Warrants**
Stock price	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Risk-free interest rate	N/A	3.68%	3.90%	3.68%
Dividend yield	N/A	—	—	—
Volatility	N/A	90%	105%	90%

12. Accrued Expenses

Accrued expenses are as follows:

	June 30, 2023	**December 31, 2022**
Accrued compensation	$ 5,282	$ 3,614
Accrued distributor commissions	2,896	3,801
Accrued severance and restructuring costs	669	1,041
Other	3,243	4,690
Total accrued expenses	$ 12,090	$ 13,146

13. Other Long-term Liabilities

Other long-term liabilities are as follows:

	June 30, 2023	**December 31, 2022**
Lease obligations	$ 1,213	$ 1,142
Retention credit	3,222	3,222
Other	3,471	3,219
Total other long-term liabilities	$ 7,906	$ 7,583

14. Income Taxes

The Company evaluates the need for deferred tax asset valuation allowances based on a more likely than not standard. The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. The Company has evaluated all evidence, both positive and negative, and maintains a valuation allowance on deferred tax assets in the United States and certain non-U.S. jurisdictions as of June 30, 2023.

For the six months ended June 30, 2023 and 2022, the Company recorded income tax provision of $0.1 million and $0.3 million, respectively in continuing operations. The June 30, 2023 six-month income tax provision was primarily a result of non-U.S. income tax expense, interest accrued on uncertain tax positions, and state tax notices received. The June 30, 2022 income tax provision was primarily a result of federal tax notices received, non-U.S. income tax expense, and interest accrued on uncertain tax positions.

15. Debt

On December 30, 2021, the Company issued $10.6 million aggregate principal amount of unsecured seller notes (“Seller Notes”) recorded at $10.2 million and $10.2 million as of June 30, 2023 and December 31, 2022 respectively. All principal and accrued interest is due and payable on the earlier of December 30, 2024, or the date upon which a change in control occurs. A change of control occurs when (i) the current shareholders of the Company will no longer own a majority of the outstanding voting shares of the Company due to a transaction or series of related transactions, or (ii) a sale or transfer of Holo Surgical Inc and Inteneural Networks Inc. or all or substantially all of their assets. Interest is paid in kind and capitalized into the principal amount of the Seller Notes on each anniversary of the issuance date at a rate of 6.8% per year. For the six months ended June 30, 2023, management accrued $0.1 million in interest expense and accredited $0.2 million related to the Seller Notes for a total interest expense of $0.3 million. In the event of default, as defined in the agreement, any and all of the indebtedness may be immediately declared due and payable, and the interest would accrue at a 4.0% higher rate. There is no prepayment penalty or covenant related to the fixed rate notes. The Seller Notes were issued as deferred consideration in connection with the INN Purchase Agreement discussed at Note 1 and Note 5.

Debt issuance costs were immaterial and were included within the overall costs of the acquisition of INN. The following table summarizes the debt recorded on the condensed consolidated balance sheet:

	Carrying Value (In thousands)	
	June 30, 2023	December 31, 2022
Seller Notes-P. Lewicki	$ 5,306	5,306
Seller Notes-K. Siemionow	5,306	5,306
Less: accretion of acquisition adjustment	(368)	(420)
Total Seller Notes – related party	10,244	10,192
Current portion of seller notes	—	—
Total long-term seller notes, excluding current portion	$ 10,244	$ 10,192

The fair value of the Seller Notes is $10.2 million and $10.2 million at June 30, 2023 and December 31, 2022, respectively. The Company has determined that the Seller Notes are a level 2 financial instrument as there are other unobservable inputs.

As of June 30, 2023, the future maturities of long-term debt, excluding deferred financing costs, accrued interest and debt discount, were as follows:

	Future Maturities of Long-Term Debt
2023	$ —
2024	10,612
2025	—
2026	—
2027	—
Thereafter	—
Total	$ 10,612

16. Commitments and Contingencies

Aziyo – On August 1, 2018, the Company and Aziyo Biologics, Inc. ("Aziyo") entered into a Distribution Agreement which was subsequently amended on December 3, 2018, and November 15, 2020 (the "Distribution Agreement"). Pursuant to the Distribution Agreement, the Company has the exclusive right to distribute certain biologic implants manufactured by Aziyo and marketed under the ViBone trade name ("ViBone"). The Distribution Agreement provides for minimum purchases of ViBone implants on an annual basis through calendar 2025. For calendar years 2019-2021, if the minimum purchase obligations for a particular year are not fulfilled, the Distribution Agreement provides various options for the Company to satisfy such obligations ("Shortfall Obligations") in subsequent years, including a combination of payments and/or providing purchase orders for the shortfall amount in a given year. If a purchase order is submitted, the contract does not provide that it needs to be satisfied during the following year (i.e., the Company can satisfy the orders over multiple years and until the minimum is achieved). For calendar years 2022 and beyond, if the Company does not satisfy the Shortfall Obligations using one of the methods specified in the Distribution Agreement, the Company can continue to market the ViBone implants on a non-exclusive basis. We did not fulfill the minimum purchase obligation for calendar year 2022 and have not satisfied the Shortfall Obligation. As it relates to the prior year minimums, we had previously issued a purchase order for the 2020 and 2021 minimums. The remaining amount on the purchase order for both years combined is $15.1 million.

Acquisition of Inteneural Networks Inc. (INN) – As part of the INN acquisition, the Company has the ability to acquire the remaining 58% equity interest in INN based on the achievement of three separate regulatory and revenue based milestones. The Company will pay $19.3 million for each individual milestone achieved, resulting in a corresponding additional 19.3% equity interest in INN per milestone achieved. The total future commitment of the remaining three milestones is $57.9 million. None of the milestones has been achieved as of June 30, 2023.

Acquisition of Holo Surgical – As part of the Holo Surgical acquisition, the Company issued contingent consideration that would be payable to the sellers upon the achievement of certain regulatory, commercial, and utilization milestones by specified time periods. On January 14, 2022, the Company received 510(k) clearance for the HOLO PortalTM surgical guidance system. Upon achievement of this milestone, the Company issued 288,333 in common stock at a value of $5.9 million and also paid the sellers $4.1 million in cash for a total payment for achieving the milestone of $10.0 million pursuant to the terms of the agreement. The fair value of the liability for these contingent considerations was $23.0 million as of June 30, 2023 with $0.0 million classified as current liabilities within "Current portion of acquisition contingency – Holo" while $23.0 million was classified as "Acquisition contingencies – Holo." The fair value of the liability was $24.1 million on December 31, 2022 with $0.0 million classified as current liabilities within "Current portion of acquisition contingency – Holo" while $24.1 million classified as "Acquisition contingencies – Holo." The change in the fair value of the liability of $1.1 million since December 31, 2022 was recognized in the "Gain on acquisition contingency" line of the condensed consolidated statements of comprehensive income.

Manufacturing Agreements with Former OEM Affiliates – In connection with the closing of the OEM Transaction, on July 20, 2020 the Company entered into three manufacturing and distribution agreements with affiliates of Montague Private Equity: (i) a Manufacture and Distribution Agreement (the "Hardware MDA") with Pioneer Surgical Technology, Inc. ("Pioneer") pursuant to which Pioneer would manufacture certain hardware implants for the Company; (ii) a Processing and Distribution Agreement with RTI Surgical, Inc. ("RTI"), an affiliate of Pioneer, pursuant to which RTI would process certain biologic implants for the Company (the "PDA"); and (iii) a Manufacture and Distribution Agreement with ("NanOss") pursuant to which Pioneer would manufacture certain synthetic implants for the Company (the "NanOss MDA"), and together with the Hardware MDA and the PDA, the "OEM Distribution Agreements." On August 5, 2022, the Company amended the OEM distribution agreement to reduce the Contract Year 3 minimum to $17.9 million and released the Company from any obligation to cure any purchase shortfall in Contract Year 2. There is no outstanding liability associated with the agreement as of June 30, 2023 and December 31, 2022.

License and Royalty Commitments

The Company has entered into product development and fee for service agreements based on contributions to the development and commercialization of certain products. Each royalty agreement: (i) confirms the irrevocable transfer to the Company of all pertinent intellectual property rights; (ii) sets the applicable royalty rate; (iii) sets the period of time during which royalties are payable; (iv) sets the parameters for which the agreement may be terminated by either party; and (v) prohibits the payment of royalties on products sold to entities and/or individuals with whom the surgeon advisor or any other surgeon advisor entitled to royalties is affiliated.

As of June 30, 2023 and 2022, the Company's royalty agreements provide for (i) royalty payments for 7 years from first commercial sale of the relevant product and (ii) a royalty rate for each such agreement ranging from 1.0% to 10.0% of net sales for the particular product to which the surgeon contributed. Related royalty expenses are recorded within "Cost of goods sold" on the consolidated statements of comprehensive income.

17. Severance and Restructuring Costs

On November 8, 2022, the Board approved a restructuring plan intended to help the Company drive growth in what it views to be the most valuable and profitable parts of its business (Digital Health and core hardware assets). The restructuring plan includes brand and product portfolio rationalization in the domestic markets, a scaled-down international business with operations winding down throughout 2023, a reduction in workforce and reduced non-essential spending. The Company began executing on the restructuring plan in December 2022 and continued the efforts in the first quarter of 2023. Regarding the product portfolio rationalization, the Company wrote down inventory held internationally of $0.7 million during the six months ended June 30, 2023 because it was determined through continual assessment that select inventory would not be sold during the quarter. This charge is reflected within the "Cost of goods sold" line in the condensed consolidated statement of income. The majority of the product rationalization has occurred; the reduction in the workforce was executed in December of 2022; and the plans for the scale back of the international business are currently being executed. The Company expects to continue its efforts through the first half of 2023.

In total, the Company expects to incur approximately $5.5 million - $7.5 million in costs related to severance and reduction in non-essential spending throughout the execution of the restructuring plan. All severance payments accrued as of December 31, 2022 have been paid as of June 30, 2023. The Company anticipates estimated cash savings in 2023 of approximately $30.0 million - $35.0 million as compared to 2022.

A summary of the total restructuring costs by major component recognized for the six months ended June 30, 2023 is as follows:

	Employee-Related	Product Rationalization	Total
Six months ended June 30, 2023	—	$ 730	$ 730

	Employee-Related	Product Rationalization	Total
Incurred during the quarter ended December 31, 2022	$ 1,148	$ 13,822	$ 14,970
Paid	(107)	—	(107)
Non-cash adjustment (1)	—	(13,822)	(13,822)
Balance as of December 31, 2022	$ 1,041	$ —	$ 1,041
Incurred during 2023	—	730	730
Paid	(763)	—	(763)
Non-cash adjustment (1)	—	(730)	(730)
Balance as of June 30, 2023	$ 278	$ —	$ 278

18. Legal Actions

The Company is, from time to time, involved in litigation relating to claims arising out of its operations in the ordinary course of business. Based on the information currently available to the Company, including the availability of coverage under its insurance policies, except as described below and in Note 19, the Company does not believe that any of these claims that were outstanding as of June 30, 2023 will have a material adverse impact on its financial position or results of operations. The Company's accounting policy is to accrue for legal costs as they are incurred.

Coloplast — RTI Surgical, Inc., as a predecessor to the Company, is presently named as co-defendant along with other companies in a small percentage of the transvaginal surgical mesh ("TSM") mass tort claims being brought in various state and federal courts. The TSM litigation has, as its catalyst, various Public Health Notifications issued by the FDA with respect to the placement of certain TSM implants that were the subject of 510(k) regulatory clearance prior to their distribution. The Company does not process or otherwise manufacture for distribution in the U.S. any implants that were the subject of these FDA Public Health Notifications. The Company denies any allegations against it and intends to continue to vigorously defend itself.

In addition to claims made directly against the Company, Coloplast, a distributor of TSM's and certain allografts processed and private labeled for them under a contract with the Company, has also been named as a defendant in individual TSM cases in various federal and state courts. Coloplast requested that the Company indemnify or defend Coloplast in those claims that allege injuries caused by the Company's allograft implants, and on April 24, 2014, Coloplast sued RTI Surgical, Inc. in the Fourth Judicial District of Minnesota for declaratory relief and breach of contract. On December 11, 2014, Coloplast entered into a settlement agreement with RTI Surgical, Inc. and Tutogen Medical, Inc. (the "Company Parties") resulting in dismissal of the case. Under the terms of the settlement agreement, the Company Parties are responsible for the defense and indemnification of two categories of present and future claims: (1) tissue only (where Coloplast is solely the distributor of Company-processed allograft tissue and no Coloplast-manufactured or distributed synthetic mesh is identified) ("Tissue Only Claims"), and (2) tissue plus non-Coloplast synthetic mesh ("Tissue-Non-Coloplast Claims") (the Tissue Only Claims and the Tissue-Non-Coloplast Claims being collectively referred to as "Indemnified Claims").

Based on the current information available to the Company, the impact that current or any future TSM litigation may have on the Company cannot be reasonably estimated.

LifeNet — On June 27, 2018, LifeNet Health, Inc. ("LifeNet") filed a patent infringement lawsuit in the United States District Court for the Middle District of Florida (since moved to the Northern District of Florida) claiming infringement of five of its patents by the Company's predecessor RTI Surgical, Inc. The suit requests damages, enhanced damages, reimbursement of costs and expenses, reasonable attorney fees, and an injunction. The asserted patents are expired. On April 7, 2019, the Court granted the Company's request to stay the lawsuit pending the U.S. Patent Trial and Appeal Board's ("PTAB") decision whether to institute review of the patentability of LifeNet's patents. On August 12, 2019 the PTAB instituted review of three LifeNet patents, and on September 3, 2019, the PTAB instituted review of the remaining two. On August 4, 2020 and August 26, 2020, the PTAB issued final written decisions finding that certain claims were shown to be unpatentable and others not. Neither party appealed the PTAB's decisions with respect to the three LifeNet patents on which the PTAB instituted review on August 12, 2019. With respect to the remaining two LifeNet patents, Surgalign filed Notices of Appeal with the Federal Circuit on October 27, 2020, and LifeNet filed a Notice of Cross-appeal on November 9, 2020. The Federal Circuit issued a Written Opinion on April 11, 2022 affirming in part and remanding in part. The PTAB canceled all challenged claims of the patent on remand on December 1, 2022. LifeNet filed a Notice of Appeal with the Federal Circuit on January 12, 2023. The Court lifted the stay for counts related to 4 of the 5 patents on January 20, 2023 and severed the count relating to the patent claims canceled by the PTAB on December 1, 2022. A trial date has been set for July 22, 2024. In connection with the sale of the Company's OEM Business, liabilities related to these claims remained a liability retained by the Company. The Company continues to believe that the suit is without merit and will vigorously defend its position. The Company has entered into preliminary settlement discussions with LifeNet, but at this time an estimate of the settlement cannot be estimated, and therefore no amounts have been recorded as of June 30, 2023. Additionally based on the current information available to the Company, the impact that current or any future litigation may have on the Company cannot be reasonably estimated.

Securities Class Action— The Company's Investigation (as defined below) resulted in stockholder litigation against the Company and certain former officers of the Company in the United States District Court for the Northern District of Illinois (the "Court") on March 23, 2020 asserting claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"). On June 30, 2021, the parties to the Lowry Action conducted a mediation session and on July 27, 2021, a binding term sheet settling the Lowry Action was entered into whereby the defendants agreed to pay $10.5 million (inclusive of attorneys' fees and administrative costs) in exchange for the dismissal with prejudice of all claims. On September 22, 2021, the court granted preliminary approval to the settlement, and the amount was paid by the Company's insurers under its Directors' and Officers' insurance policies. The Court entered an order approving the settlement on January 26, 2022 and no amounts were outstanding on June 30, 2023. The matter is now concluded.

Derivative Lawsuits—Three derivative lawsuits have also been filed on behalf of the Company, naming it as a nominal defendant, and demanding a jury trial. On June 5, 2020, David Summers filed a shareholder derivative lawsuit (the "Summers Action") against certain current and former directors and officers of the Company (as well as the Company as a nominal defendant), in the United States District Court for the Northern District of Illinois asserting statutory claims under Sections 10(b), 14(a), and 20(a) of the Exchange Act, as well as common law claims for breach of fiduciary duty, unjust enrichment and corporate waste. Thereafter, two similar shareholder derivative lawsuits asserting many of the same claims were filed in the same court against the same current and former directors and officers of the Company (as well as the Company as a nominal defendant), as well as a books and records demand under Section 220 of the Delaware General Corporate Law (the "Books and Records Demand"). The three derivative lawsuits have been consolidated into the first-filed Summers Action (together with the Books and Records Demand, the "Derivative Actions"). On September 6, 2020, the court entered an order staying the Summers Action pending resolution of the motions to dismiss in the Lowry Action. On September 30, 2021, the court granted preliminary approval of a proposed settlement of the Derivative Actions (the "Derivative Actions Settlement"). Pursuant to the Derivative Actions Settlement, the Company agreed to adopt or revise certain corporate governance policies and procedures, and the Company's insurers agreed to pay $1.5 million to plaintiffs' counsel. On January 24, 2022, the court gave final approval to the Derivative Actions Settlement and all amounts were settled. The matter is now concluded and no amounts were outstanding at June 30, 2023.

GPV I FIZN and StartVenture@Poland Sp. z.o.o. ASI SKA — The Company is presently named as a co-defendant along with other companies and individuals, including Dr. Siemionow and Dr. Lewicki, our former Chief Medical Officer and former Director respectively, by former stockholders of Holo Surgical, S.A. ("Holo SA"), individually and/or collectively, for common law fraud, constructive fraud, fraudulent inducement, conspiracy to defraud, and unjust enrichment, unlawful taking and conversion based on illegal and fraudulent actions related to (i) the sale of shares in Holo Surgical, Inc. to Roboticine, (ii) the purchase of Plaintiffs' ownership interests in Holo SA by Roboticine, and (iii) the subsequent sale of Holo Surgical, Inc. to the Company. The Company does not believe that any of the claims relate to its action with regard to the negotiations nor the purchase of Holo SA and on May 27, 2022, moved to dismiss. On February 7, 2023, the court granted the Company's motion to dismiss and the deadline for appeal has passed. The matter is now concluded.

In the future, we may become subject to additional litigation or governmental proceedings or investigations that could result in additional unanticipated legal costs regardless of the outcome of the litigation. If we are not successful in any such litigation, we may be required to pay substantial damages or settlement costs. Based on the current information available to the Company, the impact that current or any future stockholder litigation may have on the Company cannot be reasonably estimated.

19. Regulatory Actions

SEC Investigation— As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 16, 2020, and the Form 10-K filed with the SEC on June 8, 2020, the Audit Committee of the Board of Directors, with the assistance of independent legal and forensic accounting advisors, conducted an internal investigation of matters relating to the Company's revenue recognition practices for certain contractual arrangements, primarily with customers of the Company's formerly-owned OEM Businesses, including the accounting treatment, financial reporting and internal controls related to such arrangements (the "Investigation"). The Investigation also examined transactions to understand the practices related to manual journal entries for accrual and reserve accounts. As a result of the Investigation, the Audit Committee concluded that the Company would restate its previously issued audited financial statements for fiscal years 2018, 2017, and 2016, selected financial data for fiscal years 2015 and 2014, the condensed consolidated financial statements for the quarterly periods within these years commencing with the first quarter of 2016, as well as the condensed consolidated financial statements for the quarterly periods within the 2019 fiscal year.

On August 3, 2022, the Company reached a settlement with the SEC concluding and resolving in its entirety the Investigation. Under the terms of the settlement, the Company paid a civil penalty of $2.0 million and received $0.6 million from former executives related to recouped compensation. These amounts were recorded in previous years. For the Investigation, there were no amounts outstanding as of June 30, 2023.

20. Related Party Transactions

The Company's related parties include: i) a person who is or was (since the beginning of the last fiscal year for which the Company has filed a Form 10-K and proxy statement, even if he or she does not presently serve in that role) an executive officer, director or nominee for election as a director; ii) greater than five percent beneficial owner of the Company's common stock; or iii) immediate family member of any of the foregoing. The Company is not aware of any related party transactions in 2023 to date.

21. Subsequent Events

The Company evaluated subsequent events as of the issuance date of the condensed consolidated financial statements as defined by FASB ASC 855, *Subsequent Events.*

Exhibit 99.2

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial statements present the combination of the historical financial statements of Xtant Medical Holdings, Inc., a Delaware corporation ("Xtant" or the "Company"), and Surgalign Holdings, Inc. ("Surgalign Holdings"), a Delaware corporation, adjusted to give effect to the transaction contemplated by the Asset Purchase Agreement dated June 18, 2023 between Xtant and Surgalign Holdings (as amended the "Purchase Agreement"), pursuant to which, subject to the terms and conditions set forth in the Purchase Agreement, Xtant acquired certain assets of Surgalign Holdings and its subsidiaries used in Surgalign Holding's hardware and biologics business. The acquired assets included specified inventory, intellectual property and intellectual property rights, contracts, records and outstanding equity securities of its international subsidiaries, and intangibles related to Surgalign Holding's hardware and biologics business (collectively, the "Assets"), and Xtant assumed certain specified liabilities of Surgalign Holdings and its subsidiaries (collectively, the "Liabilities" and such acquisition of the Assets and assumption of the Liabilities together, the "Transaction") for a total purchase price of $5 million in cash. The Transaction was completed on August 10, 2023.

The Transaction was conducted through a process supervised by the United States Bankruptcy Court for the Southern District of Texas, Houston Division in connection with Surgalign Holdings's bankruptcy, and therefore Xtant acquired the Assets with limited representations and warranties.

The Transaction is reflected in the pro forma condensed combined financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations*, and FASB ASC 350, *Intangibles – Goodwill and Other*. Based on the terms of the Purchase Agreement, Xtant was determined to be the acquirer for accounting purposes and the Transaction was accounted for under the acquisition method in accordance with FASB ASC 805, *Business Combinations*, and FASB ASC 350, *Intangibles—Goodwill and Other*, using the fair value concepts defined in FASB ASC 820, *Fair Value Measurements and Disclosures*.

The unaudited pro forma condensed combined financial statements have 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". Article 11 provides simplified requirements to depict the accounting for the Transaction ("Transaction Accounting Adjustments") 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 unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2023 gives effect to the Transaction as if it had occurred on January 1, 2023, the beginning of the earliest period presented.

The unaudited pro forma condensed combined financial statements should be read in conjunction with Xtant's separately filed historical consolidated financial statements and the historical Surgalign Holdings financial statements and accompanying notes filed as Exhibit 99.1 to the Current Report on Form 8-K to which these unaudited pro forma condensed combined financial statements are filed as an exhibit. The pro forma adjustments are preliminary and are based upon available information and certain assumptions, as described in the accompanying notes to the unaudited pro forma condensed combined financial statements, which the Company believes are reasonable under the circumstances.

Actual results and valuations may differ materially from the assumptions within the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined financial statements are not necessarily indicative of the financial position or results of operations to be expected in future periods or the results that actually would have been realized had the Transaction occurred during the specified periods and do not give effect to the potential impact of current financial condition, regulatory matters, operating efficiencies or other savings or expenses that may be associated with the Transaction. The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and may not be indicative of the results of operations or financial condition of the combined company following the Transaction.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2023
(In thousands)

	Xtant (Historical)	Surgalign Holdings, Inc. (Historical)	Adjustments to Surgalign Holdings's Historical Financial Statements (See Note 4)	Transaction Accounting Adjustments	Notes	Pro Forma Combined
Revenue	$ 91,303	$ 34,989	$ (59)	$ —		$ 126,233
Cost of sales	35,836	11,718	—	144	(a)	47,698
Gross Profit	55,467	23,271	(59)	(144)		78,535
Operating Expenses						
General and administrative	25,850	45,172	(9,746)	271	(b)	61,547
Sales and marketing	38,439	—	—	—		38,439
Research and development	1,336	5,873	(2,763)	—		4,446
Severance and restructuring costs	—	932	(466)	—		466
Gain on acquisition contingency	—	(1,066)	1,066	—		—
Asset impairment and abandonments	—	637	(84)	—		553
Transaction and integration expenses	—	463	(463)	—		—
Total Operating Expenses	65,625	52,011	(12,456)	271		105,180
Gain on Sale of Coflex	—	(12,631)	12,631			—
(Loss) Income from Operations	(10,158)	(16,109)	(234)	(415)		(26,916)
Other Income (Expense)						
Interest expense	2,938	506	(252)	—		3,192
Interest income	(149)	—	—	—		(149)
Foreign exchange gain	(265)	(619)	(73)	—		(957)
Other expense (income) -net	49	(323)	87	—		(187)
Change in fair value of warrant liability	—	(20,800)	5,288	—		(15,512)
Bargain purchase gain	(11,694)	—	—	—		(11,694)
Total Other Expense	(9,121)	(21,236)	5,050	—		(25,307)
Net (Loss) Income from Operations Before Provision for Income Taxes	(1,037)	5,127	(5,284)	(415)		(1,609)
Provision for Income Taxes Current and Deferred	(1,697)	319	(20)	—		(1,398)
Net Income (Loss)	$ 660	$ 4,808	$ (5,264)	$ (415)		$ (211)
Net Loss Per Share:						
Basic	$ 0.01	$ 0.60				$ 0.00
Dilutive	$ 0.01	$ 0.55				$ 0.00
Shares used in the computation:						
Basic	119,093,687	8,072,339				119,093,687
Dilutive	126,793,318	8,766,184				119,093,687

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 June 18, 2023, Xtant Medical Holdings, Inc. (“Xtant” or the “Company”) entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Surgalign Holdings, Inc. (“Surgalign Holdings”), pursuant to which, subject to the terms and conditions set forth in the Purchase Agreement, Xtant agreed to acquire certain assets of Surgalign Holdings and its subsidiaries on an as-is, where-is basis, including specified inventory, intellectual property and intellectual property rights, contracts, equipment and other personal property, records, all outstanding equity securities of Surgalign Holdings’ international subsidiaries, and intangibles related to the business of designing, developing and manufacturing hardware medical technology and distributing biologics medical technology, as conducted by Surgalign Holdings and its subsidiaries (collectively, the “Assets”), and assume certain specified liabilities of Surgalign Holdings and its subsidiaries (collectively, the “Liabilities” and such acquisition of the Assets and assumption of the Liabilities together, the “Transaction”) for a total purchase price of $5 million in cash. The Transaction was completed on August 10, 2023.

For accounting purposes, the Transaction was accounted for under the acquisition method in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805, *Business Combinations*, and FASB ASC 350, *Intangibles—Goodwill and Other*.

2. Basis of Pro Forma Presentation

The unaudited pro forma condensed combined financial statements have been prepared in accordance with Article 11 of Regulation S-X and reflect Transaction accounting adjustments management believes are necessary to present fairly Xtant’s pro forma results of operations following the closing of the Transaction for the periods presented.

The historical financial information of Xtant and Surgalign Holdings being presented in the unaudited pro forma financial statements is derived from Xtant’s audited consolidated statement of operations for the year ended December 31, 2023, which were prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”).

On February 28, 2023, Xtant purchased all of the issued and outstanding shares of common stock of Surgalign SPV Inc. (“Surgalign SPV”), an indirect, wholly owned subsidiary of Surgalign Holdings, which shares constituted all of the outstanding equity of Surgalign SPV, for an aggregate purchase price of $17.0 million in cash. The historical financial information of Surgalign SPV has been included within the historical financial information of Surgalign Holdings prior to the acquisition of February 28, 2023, within the pro forma unaudited condensed consolidated statement of operations for the year ended December 31, 2023 as the acquired assets of Surgalign SPV, together with the Assets, were deemed to represent substantially all of Surgalign Holdings’s key operating assets in accordance with Regulation S-X 3-05.

These unaudited pro forma condensed combined financial statements are presented for illustrative purposes only and do not give effect to any cost savings from operating efficiencies, revenue synergies, differences in stand-alone costs or costs for the integration of Surgalign Holdings’s operations. These unaudited pro forma condensed combined financial statements do not purport to represent what the actual consolidated results of operations of Xtant would have been had the Transaction been completed on the dates assumed, nor are they indicative of future consolidated results of operations or consolidated financial position. Any transaction, separation or integration costs will be expensed in the appropriate accounting periods after completion of the Transaction.

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 fair value of net assets acquired over the purchase price recorded as a gain on bargain purchase. 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. 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 a review of the accounting policies of Surgalign Holdings 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 Surgalign Holdings.

The unaudited pro forma condensed combined financial statements may not reflect all reclassifications necessary to conform Surgalign Holdings's presentation to that of Xtant due to limitations on the availability of information as of the date of the Current Report on Form 8-K to which these unaudited pro forma condensed combined financial statements are filed as an exhibit.

4. Adjustments to Surgalign Holdings's Historical Financial Statements

These adjustments are amounts in Surgalign Holdings's historical statements of operations and historical balance sheet that relate to revenue and expenses and assets and liabilities directly associated with a component not acquired by Xtant in the Transaction, and therefore, are not included in the unaudited pro forma condensed combined statements of operations and the unaudited pro forma condensed combined balance sheet.

5. Purchase Price Allocation

Xtant purchased certain Assets and certain Liabilities as described above of Surgalign Holdings, for a total purchase price of $5 million in cash.

The table below represents the allocation of the total consideration for Surgalign Holdings's assets based on management's estimate of their respective fair values as of August 10, 2023, and is applied to the unaudited pro forma condensed combined balance sheet as if the Transaction occurred on January 1, 2023 (in thousands):

Cash	$	1,087
Accounts receivable		1,627
Inventories		15,300
Prepaids and other current assets		825
Equipment		2,067
Right-of-use-asset		576
Accounts payable		(530)
Accrued liabilities		(1,170)
Current portion of lease liability		(238)
Lease liability, less current portion		(338)
Net assets acquired		19,206
Bargain purchase gain		(11,694)
Deferred tax liability		(1,922)
Total purchase consideration	$	5,590

The Transaction was recorded by allocating the costs of the net assets acquired based on their respective estimated fair values at the acquisition date. The fair values were based on management's analysis, including work performed by third-party valuation specialists.

6. Transaction Accounting Adjustments

The Transaction accounting adjustments are based on Xtant's preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma condensed combined financial statements as if the Transaction occurred on January 1, 2023:

(a) Inventory and Cost of Sales

Xtant recorded additional cost of sales of $144 thousand in connection with the sell-through of inventory at the stepped-up fair value.

(b) Intangible Amortization

Reflects the adjustments in connection with the recorded fair value, Xtant recorded additional intangible amortization expense of $271 thousand for the year ended December 31, 2023.