

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2020

or

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

Commission File Number: 001-34951

XTANT MEDICAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-5313323

(I.R.S. Employer
Identification No.)

664 Cruiser Lane
Belgrade, Montana

(Address of principal executive offices)

59714

(Zip Code)

(406) 388-0480

(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

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

Number of shares of common stock, \$0.000001 par value, of registrant outstanding at May 5, 2020: 13,223,565.

XTANT MEDICAL HOLDINGS, INC.
FORM 10-Q
March 31, 2020

TABLE OF CONTENTS

	<u>Page</u>
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	ii
PART I. <u>FINANCIAL INFORMATION</u>	1
ITEM 1. <u>FINANCIAL STATEMENTS</u>	1
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	14
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	19
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	19
PART II. <u>OTHER INFORMATION</u>	20
ITEM 1. <u>LEGAL PROCEEDINGS</u>	20
ITEM 1A. <u>RISK FACTORS</u>	20
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	21
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	21
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	21
ITEM 5. <u>OTHER INFORMATION</u>	21
ITEM 6. <u>EXHIBITS</u>	22

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- the effect of the global novel strain of coronavirus (COVID-19) pandemic on our business, operating results and financial condition, including disruption to our customers, distributors, independent sales representatives, contract manufacturers and suppliers, as well as the global economy and financial and credit markets;
- our ability to comply with the covenants in our second amended and restated credit agreement;
- our ability to maintain sufficient liquidity to fund our operations;
- our ability to service our debt;
- our ability to obtain financing on reasonable terms when needed;
- our ability to increase or maintain revenue;
- the ability of our sales force to achieve expected results;
- our ability to innovate and develop new products;
- our ability to remain competitive;
- our ability to obtain donor cadavers for our products;
- our ability to engage and retain qualified technical personnel and members of our management team;
- the availability of our facilities;
- our ability to retain and recruit independent sales agents and the impact of the termination of an advisory agreement with an entity that provided services to some of our customers;
- government regulations;
- government and third-party coverage and reimbursement for our products;
- our ability to obtain and maintain regulatory approvals in the United States and abroad;
- our ability to successfully integrate future business combinations or acquisitions;
- our ability to use our net operating loss carry-forwards to offset future taxable income;
- product liability claims and other litigation to which we may be subjected;
- product recalls and defects, including the December 2018 recall of our Calix Lumbar Spine Implant System;
- timing and results of clinical studies;
- our ability to remain accredited with the American Association of Tissue Banks;
- our ability to obtain and protect our intellectual property and proprietary rights;
- infringement and ownership of intellectual property; and
- our ability to maintain our stock listing on the NYSE American Exchange.

The forward-looking statements contained in this Form 10-Q are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties, or assumptions, many of which are beyond our control, which may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2019 and this Form 10-Q.

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

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

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

	<u>As of March 31, 2020</u>	<u>As of December 31, 2019</u>
	<u>(Unaudited)</u>	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,239	\$ 5,237
Trade accounts receivable, net of allowance for credit losses of \$668 and doubtful accounts of \$500, respectively	9,743	10,124
Inventories	18,044	16,101
Prepaid and other current assets	1,084	784
Total current assets	<u>32,110</u>	<u>32,246</u>
Property and equipment, net	4,303	4,695
Right-of-use asset, net	1,999	2,100
Goodwill	3,205	3,205
Intangible assets, net	500	515
Other assets	434	394
Total Assets	<u>\$ 42,551</u>	<u>\$ 43,155</u>
LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 3,609	\$ 2,188
Accrued liabilities	5,910	6,625
Warrant derivative liability	1	7
Current portion of lease liability	401	394
Current portion of financing lease obligations	138	176
Total current liabilities	<u>10,059</u>	<u>9,390</u>
Long-term Liabilities:		
Lease liability, less current portion	1,623	1,726
Long-term debt, less issuance costs	77,345	76,244
Total Liabilities	<u>89,027</u>	<u>87,360</u>
Commitments and Contingencies (note 11)		
Stockholders' Equity (Deficit):		
Preferred stock, \$0.000001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.000001 par value; 75,000,000 shares authorized; 13,223,565 shares issued and outstanding as of March 31, 2020 and 13,161,762 shares issued and outstanding as of December 31, 2019	—	—
Additional paid-in capital	179,330	179,061
Accumulated deficit	(225,806)	(223,266)
Total Stockholders' Equity (Deficit)	<u>(46,476)</u>	<u>(44,205)</u>
Total Liabilities & Stockholders' Equity (Deficit)	<u>\$ 42,551</u>	<u>\$ 43,155</u>

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2020	2019
Revenue		
Orthopedic product sales	\$ 14,735	\$ 16,686
Other revenue	43	40
Total Revenue	14,778	16,726
Cost of sales	5,165	5,913
Gross Profit	9,613	10,813
Operating Expenses		
General and administrative	4,319	4,477
Sales and marketing	6,413	6,742
Research and development	245	262
Total Operating Expenses	10,977	11,481
Loss from Operations	(1,364)	(668)
Other (Expense) Income		
Interest expense	(1,108)	(2,018)
Change in warrant derivative liability	6	(15)
Other (expense) income	(5)	(75)
Total Other (Expense)	(1,107)	(2,108)
Net Loss Before Provision for Income Taxes	(2,471)	(2,776)
Provision for income taxes	(22)	(23)
Net Loss	\$ (2,493)	\$ (2,799)
Net loss per share:		
Basic	\$ (0.19)	\$ (0.21)
Dilutive	\$ (0.19)	\$ (0.21)
Shares used in the computation:		
Basic	13,175,345	13,170,721
Dilutive	13,175,345	13,170,721

See notes to unaudited condensed consolidated financial statements.

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

STOCKHOLDERS' EQUITY – THREE MONTHS ENDED MARCH 31

	<u>Common Stock</u>		<u>Additional Paid-In-Capital</u>	<u>Retained Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2018	13,172,179	\$ —	\$ 171,273	\$ (215,045)	\$ (43,772)
Stock-based compensation	—	—	122	—	122
Forfeiture of restricted stock	(10,417)	—	—	—	—
Debt extinguishment	—	—	7,264	—	7,264
Issuance of warrant	—	—	9	—	9
Net loss	—	—	—	(2,799)	(2,799)
Balance at March 31, 2019	<u>13,161,762</u>	<u>\$ —</u>	<u>\$ 178,668</u>	<u>\$ (217,844)</u>	<u>\$ (39,176)</u>
Balance at December 31, 2019	13,161,762	\$ —	\$ 179,061	\$ (223,266)	\$ (44,205)
ASU 2016-13 cumulative effect adjustment	—	—	—	(47)	(47)
Common stock issued on vesting of restricted stock units	61,803	—	—	—	—
Stock-based compensation	—	—	269	—	269
Net loss	—	—	—	(2,493)	(2,493)
Balance at March 31, 2020	<u>13,223,565</u>	<u>\$ —</u>	<u>\$ 179,330</u>	<u>\$ (225,806)</u>	<u>\$ (46,476)</u>

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2020	2019
Operating activities:		
Net loss	\$ (2,493)	\$ (2,799)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	685	776
(Gain) loss on disposal of fixed assets	(105)	116
Non-cash interest	1,101	1,991
Non-cash rent	4	-
Stock-based compensation	269	122
Provision for reserve on accounts receivable	138	94
Provision for excess and obsolete inventory	31	153
Change in warrant derivative liability	(6)	15
Changes in operating assets and liabilities:		
Accounts receivable	195	403
Inventories	(1,974)	623
Prepaid and other assets	(340)	146
Accounts payable	1,421	(429)
Accrued liabilities	(715)	(721)
Net cash (used in) provided by operating activities	(1,789)	490
Investing activities:		
Purchases of property and equipment and intangible assets	(258)	(137)
Proceeds from sale of fixed assets	83	51
Net cash used in investing activities	(175)	(86)
Financing activities:		
Payments on financing leases	(34)	(104)
Net cash used in financing activities	(34)	(104)
Net change in cash and cash equivalents	(1,998)	300
Cash and cash equivalents at beginning of period	5,237	6,797
Cash and cash equivalents at end of period	\$ 3,239	\$ 7,097

See notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements

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

Business Description and Basis of Presentation

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

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

The accompanying condensed consolidated balance sheet as of December 31, 2019, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. They do not include all disclosures required by generally accepted accounting principles for annual consolidated financial statements, but in the opinion of management include all adjustments, consisting only of normal recurring items, necessary for a fair presentation.

Interim results are not necessarily indicative of results that may be achieved in the future for the full year ending December 31, 2020.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, which are included in Xtant’s Annual Report on Form 10-K for the year ended December 31, 2019. The accounting policies set forth in those annual consolidated financial statements are the same as the accounting policies utilized in the preparation of these condensed consolidated financial statements, except as modified for appropriate interim consolidated financial statement presentation.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments* to change the impairment model for most financial assets and certain other instruments. For trade and other receivables, held to maturity debt securities, loans, and other instruments, entities are required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. The Company adopted the guidance on January 1, 2020 and recognized a cumulative effect adjustment of \$47,000 to retained earnings and accounts receivable, net as a result of adoption. The Company has included the additional disclosures required by ASU 2016-13 in Note 3.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which the Company has adopted or will adopt, as applicable, the Company does not believe any of these accounting pronouncements has had or will have a material impact on the Company’s consolidated financial position or operating results.

Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Significant estimates include the carrying amount of property and equipment, goodwill and intangible assets and liabilities, valuation allowances for trade receivables, inventory and deferred income tax assets and liabilities, current and long-term right-of-use asset, evaluation of ability to continue as a going concern and estimates for the fair value of long-term debt, stock options and other equity awards upon which the Company determines stock-based compensation expense. Actual results could differ from those estimates.

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Company looks primarily to estimated undiscounted future cash flows in its assessment of whether or not long-lived assets are recoverable. As a result of the revenue decline related to the current global novel strain of coronavirus, or COVID-19 pandemic, the Company evaluated whether the carrying values of the long-lived assets were recoverable. Based on these evaluations, the Company determined that the long-lived assets were still recoverable. No impairments of long-lived assets were recorded for the three months ended March 31, 2020 and 2019.

Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have indefinite useful lives are not amortized. Instead, they are tested for impairment at least annually, and whenever events or circumstances indicate, the carrying amount of the asset may not be recoverable. As a result of the current COVID-19 pandemic and its impact on the Company's projected cash flows, the Company tested goodwill for impairment at the end of the first quarter of 2020. No impairments of goodwill were recorded for the three months ended March 31, 2020 and 2019.

Net Loss Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Diluted net income (loss) per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive shares of common stock outstanding during the period, which include the assumed exercise of stock options and warrants using the treasury stock method. Diluted net loss per share was the same as basic net loss per share for the three months ended March 31, 2020 and 2019, as shares issuable upon the exercise of stock options and warrants were anti-dilutive as a result of the net losses incurred for those periods. Dilutive earnings per share are not reported, as the effects of including 4,363,089 and 1,912,567 outstanding stock options, restricted stock units and warrants for the three months ended March 31, 2020 and 2019, respectively, are anti-dilutive.

Fair Value of Financial Instruments

As of March 31, 2020 and December 31, 2019, the fair value of the Company's warrant derivative liability was not material. The valuation technique used to measure fair value of the warrant liability is based on a lattice valuation model and significant assumptions and inputs determined by us.

The carrying values of financial instruments, including trade accounts receivable, accounts payable, accrued liabilities, and long-term debt, approximate their fair values based on terms and related interest rates as of March 31, 2020 and December 31, 2019.

(2) Revenue

In the United States, we generate most of our revenue from independent commissioned sales agents. We consign our orthobiologics products to hospitals and consign or loan our spinal implant sets to the independent sales agents. The spinal implant sets typically contain the instruments, disposables, and spinal implants required to complete a surgery. Consigned sets are managed by the sales agent to service hospitals that are high volume users for multiple procedures.

We ship replacement inventory to independent sales agents to replace the consigned inventory used in surgeries. Loaned sets are returned to the Company's distribution center, replenished, and made available to sales agents for the next surgical procedure.

For each surgical procedure, the sales agent reports use of the product by the hospital and, as soon as practicable thereafter, ensures that the hospital provides a purchase order to the Company. Upon receipt of the hospital purchase order, the Company invoices the hospital, and revenue is recognized in the proper period. Additionally, the Company sells product directly to domestic and international stocking resellers and private label resellers. Upon receipt and acceptance of a purchase order from a stocking reseller, the Company ships product and invoices the reseller. The Company recognizes revenue control of the promised goods is transferred to the customer, in an amount that reflects the consideration we expect to collect in exchange for those goods or services. There is generally no customer acceptance or other condition that prevents the Company from recognizing revenue in accordance with the delivery terms for these sales transactions.

The Company operates in one reportable segment with our net revenue derived primarily from the sale of orthobiologics and spinal implant products across North America, Europe, Asia Pacific, and Latin America. Sales are reported net of returns. The following table presents revenues from these product lines for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31, 2020	Percentage of Total Revenue	Three Months Ended March 31, 2019	Percentage of Total Revenue
Orthobiologics	\$ 10,755	73%	\$ 12,058	72%
Spinal implant	3,980	27%	4,628	28%
Other revenue	43	0%	40	0%
Total revenue	<u>\$ 14,778</u>	<u>100%</u>	<u>\$ 16,726</u>	<u>100%</u>

(3) Receivables

Concurrent with the adoption of ASU 2016-13, the Company's allowance for doubtful accounts was expanded to include provision for current expected credit loss ("CECL"). The Company's provision for CECL is determined based on historical collection experience adjusted for current economic conditions affecting collectability. Actual customer collections could differ from estimates. Account balances are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Provisions to the allowance for credit losses are charged to expense. Activity within the allowance for credit losses was as follows for the three months ended March 31, 2020 (in thousands):

Balance at January 1, 2020	\$ 547
Provision for expected credit losses	138
Write-offs charged against allowance	(17)
Balance at March 31, 2020	<u>\$ 668</u>

(4) Inventories

Inventories consist of the following (in thousands):

	March 31, 2020	December 31, 2019
Raw materials	\$ 4,022	\$ 3,805
Work in process	2,853	1,603
Finished goods	22,423	22,135
Gross inventories	29,298	27,543
Reserve for obsolescence	(11,254)	(11,442)
Total	<u>\$ 18,044</u>	<u>\$ 16,101</u>

(5) Property and Equipment, Net

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

	March 31, 2020	December 31, 2019
Equipment	\$ 4,361	\$ 4,250
Computer equipment	476	455
Computer software	570	570
Furniture and fixtures	133	124
Leasehold improvements	3,980	3,980
Vehicles	10	10
Surgical instruments	10,960	10,897
Total cost	20,490	20,286
Less: accumulated depreciation	(16,187)	(15,591)
Property and equipment, net	<u>\$ 4,303</u>	<u>\$ 4,695</u>

Depreciation expense related to property and equipment, including property under capital lease, for the first three months of 2020 and 2019 was \$0.7 million and \$0.8 million, respectively.

The Company leases certain equipment under finance leases. For financial reporting purposes, minimum lease payments relating to the assets have been capitalized. As of March 31, 2020, the Company has recorded \$1.4 million of gross assets in equipment and \$1.0 million of accumulated depreciation.

(6) Intangible Assets

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

	March 31, 2020	December 31, 2019
Patents	\$ 847	\$ 847
Accumulated amortization	(347)	(332)
Intangible assets, net	<u>\$ 500</u>	<u>\$ 515</u>

The following is a summary of estimated future amortization expense for intangible assets as of March 31, 2020 (in thousands):

Remainder of 2020	\$ 42
2021	55
2022	54
2023	53
2024	52
Thereafter	244
Total	<u>\$ 500</u>

(7) **Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

	March 31, 2020	December 31, 2019
Wages/commissions payable	\$ 2,313	\$ 3,902
Other accrued liabilities	3,597	2,723
Accrued liabilities	<u>\$ 5,910</u>	<u>\$ 6,625</u>

(8) **Debt**

The Company has a credit facility with OrbiMed Royalty Opportunities II, LP (“Royalty Opportunities”) and ROS Acquisition Offshore LP (“ROS” and together with Royalty Opportunities the “Lenders”) (the “Second Amended and Restated Credit Agreement”). As of March 31, 2020, the Company had availability for additional delayed draw loan advances of \$2.2 million, subject to Lenders’ discretion. In addition, the Company may request additional term loans from the Lenders in an aggregate amount up to \$10.0 million, subject to Lenders’ discretion. Beginning April 1, 2020 through the maturity date of the Second Amended and Restated Credit Agreement, interest payable in cash will accrue on the Loans under the Credit Agreement at a rate per annum equal to the sum of (a) 10.00% plus (b) the higher of (x) the LIBO Rate (as such term is defined in the Second Amended and Restated Credit Agreement) and (y) 2.3125%.

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

	March 31, 2020	December 31, 2019
Amounts due under the Second Amended and Restated Credit Agreement	\$ 72,657	\$ 72,657
PIK interest payable related to Second Amended and Restated Credit Agreement	4,229	3,280
Plus: 2% exit fee on prior credit agreement	533	399
Gross long-term debt	77,419	76,336
Less: total debt issuance costs on Credit Agreements	(74)	(92)
Long-term debt, less issuance costs	<u>\$ 77,345</u>	<u>\$ 76,244</u>

Amounts due under the Second Amended and Restated Credit Agreement were scheduled to mature on March 31, 2021 and become payable at that time. On May 6, 2020, the Company, entered into a First Amendment to the Second Amended and Restated Credit Agreement with the Lenders, which among other things, provided that:

- No interest will accrue on the outstanding loans under the Second Amended and Restated Credit Agreement (the “Loans”) from and after March 31, 2020 until September 30, 2020;
- Beginning October 1, 2020 through the maturity date of the Second A&R Credit Agreement, interest payable in cash will accrue on the Loans under the Second A&R Credit Agreement at a rate per annum equal to the sum of (i) 10.00% plus (ii) the higher of (x) the LIBO Rate (as such term is defined in the Second A&R Credit Agreement) and (y) 2.3125%;
- The maturity date of the Loans is December 31, 2021;
- The Revenue Base financial covenant was revised through December 31, 2021; and
- The key person event default provision was revised to refer specifically to Sean Browne in lieu of Ron Berlin.

On May 6, 2020 Xtant issued warrants to purchase an aggregate of 2,400,000 shares of Company common stock to the Lenders, with an exercise price of \$0.01 per share and an expiration date of May 6, 2030 (collectively, the “2020 Warrants”). The issuance of the 2020 Warrants was a condition to the effectiveness of the First Amendment. The number of shares of Company common stock issuable upon exercise of the 2020 Warrants are subject to standard and customary anti-dilution provisions for stock splits, stock dividends or similar transactions.

The Lenders, which collectively own approximately 70% of the Company's outstanding common stock, and beneficially own, with their warrants, approximately 75% of the Company's common stock, are the sole holders of the Company's outstanding long-term debt. In addition, as described in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 5, 2020, the Company is a party to an Investor Rights Agreement and Registration Rights Agreement with the Lenders in addition to the Second Amended and Restated Credit Agreement.

(9) Stock-Based Compensation

Stock option activity, including options granted under the Xtant Medical Holdings, Inc. 2018 Equity Incentive Plan, as amended (the "2018 Plan"), and the Amended and Restated Xtant Medical Equity Incentive Plan and options granted to new hires to purchase shares of our common stock outside of any stockholder-approved plan, was as follows:

	2020			2019		
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value at Grant Date Per Share	Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value at Grant Date Per Share
Outstanding at January 1	602,966	\$ 6.07	\$ 3.99	496,958	\$ 9.90	\$ 6.62
Granted	-	\$ -	\$ -	100,000	\$ 2.24	\$ 1.95
Cancelled or expired	(76,299)	\$ 4.18	\$ 2.96	(395,000)	\$ 4.71	\$ 3.69
Outstanding at March 31	526,667	\$ 6.34	\$ 4.14	201,958	\$ 10.62	\$ 6.74
Exercisable at March 31	48,764	\$ 41.11	\$ 23.34	71,249	\$ 24.35	\$ 14.09

During the three months ended March 31, 2020, 489,437 restricted stock units were granted under the 2018 Plan, which vest over a weighted average period of 1.5 years.

(10) Warrants

As of March 31, 2020 and December 31, 2019, warrants for the purchase of an aggregate of 2,908,874 shares of common stock were outstanding, with a weighted average exercise price of \$4.16 per share. Among these, warrants to purchase an aggregate of 87,509 shares were accounted for as a derivative liability (see Note 1).

(11) Commitments and Contingencies

Operating Leases

We lease three office facilities as of March 31, 2020 in Belgrade, Montana under non-cancelable operating lease agreements with expiration dates between 2023 and 2025. We have the option to extend certain leases to five or ten-year term(s), and we have the right of first refusal on any sale.

Present Value of Long-term Leases

(in thousands):	March 31, 2020
Right-of-use assets, net	\$ 1,999
Current portion of lease liability	401
Lease liability, less current portion	1,623
Total lease liability	\$ 2,024

As of March 31, 2020, the weighted-average remaining lease term was 4.6 years. The Company's lease agreements do not provide a readily determinable implicit rate nor is it available to the Company from its lessors. Instead, as of March 31, 2019, the Company estimates the weighted-average discount rate for its operating leases to be 5.2% of present value based on the incremental borrowing rate.

Future minimum payments for the next five years and thereafter as of March 31, 2020 under these long-term operating leases are as follows (in thousands):

Remainder of 2020	\$ 376
2021	507
2022	521
2023	489
2024	224
Thereafter	179
Total future minimum lease payments	2,296
Less amount representing interest	(272)
Present value of obligations under operating leases	2,024
Less current portion	(401)
Long-term operating lease obligations	\$ 1,623

Rent expense was \$0.1 million for the three months ended March 31, 2020 and 2019. We have no contingent rent agreements.

Financing Leases

Future minimum payments under finance leases are as follows as of March 31, 2020 (in thousands):

Remainder of 2020	\$ 144
Less amount representing interest	(6)
Present value of obligations under financing leases	\$ 138

Litigation

On December 13, 2018, a complaint was filed by RSB Spine, LLC, against Xtant Medical Holdings, Inc., which claims that some of our products, including the Irix-A Lumbar Integrated Fusion System and the Irix-C Cervical Integrated Fusion System, infringe certain of RSB Spine's patents. On February 28, 2020, we entered into a confidential settlement and patent license agreement with RSB Spine pursuant to which we agreed to make an undisclosed settlement payment to RSB Spine and pay royalties on future sales of the two products through the expiration of the asserted patents. The settlement payment was included in accrued expenses as of December 31, 2019.

In addition, we are subject to potential liabilities under government regulations and various claims and legal actions that are pending or may be asserted from time to time.

These matters arise in the ordinary course and conduct of our business and may include, for example, commercial, product liability, intellectual property, and employment matters. We intend to continue to defend the Company vigorously in such matters and, when warranted, take legal action against others. Furthermore, we regularly assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our financial statements. An estimated loss contingency is accrued in our financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Based on our assessment, we have adequately accrued an amount for contingent liabilities currently in existence. We do not accrue amounts for liabilities that we do not believe are probable or that we consider immaterial to our overall financial position. Litigation is inherently unpredictable, and unfavorable resolutions could occur. As a result, assessing contingencies is highly subjective and requires judgment about future events. The amount of ultimate loss may exceed the Company's current accruals, and it is possible that its cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Indemnifications

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

We have also agreed to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines, and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by us, arising out of that person's services as our director or officer or that person's services provided to any other company or enterprise at our request.

(12) Income Taxes

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

The Company did not recognize any interest or penalties related to income taxes for the three months ended March 31, 2020 and 2019.

(13) Supplemental Disclosure of Cash Flow Information

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

	Three Months Ended	
	March 31,	
	2020	2019
Supplemental disclosure of cash flow information		
<i>Cash paid during the period for:</i>		
Interest	\$ 7	\$ 27
<i>Non-cash activities:</i>		
ASU 2016-13 cumulative effect adjustment	\$ 47	\$ —
Lease liability from right-of-use assets	\$ —	\$ 2,658
Extinguishment of Prior Credit Agreement (including debt issuance costs)	\$ —	\$ 307
Recognition of Second Amended and Restated Credit Agreement	\$ —	\$ 72,657
Recognition of 2019 Warrants	\$ —	\$ 9

(14) Related Party Transactions

Royalty Opportunities and ROS collectively own approximately 70% of the Company's outstanding common stock and are the sole holders of our outstanding long-term debt and are Lenders under the Second A&R Credit Agreement. In addition, as described in more detail under Note 1, "Business Description and Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, we are party to an Investor Rights Agreement and Registration Rights Agreement with Royalty Opportunities and ROS. Transactions between the Company, on the one hand, and Royalty Opportunities and ROS, on the other hand, are conducted under the provisions of the Second Amended and Restated Credit Agreement, the Prior Credit Agreement, the Investor Rights Agreement, and the Registration Rights Agreement, as previously noted.

On January 22, 2020, the Company amended its Sublease Agreement with Cardialen, Inc., reducing monthly rent to \$1,350 per month. Because Jeffrey Peters is both a member of our Board and the Chief Executive Officer, President, and a Director of Cardialen, this transaction qualifies as a related party transaction.

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

(15) Segment and Geographic Information

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

The Company attributes revenues to geographic areas based on the location of the customer. Approximately 96% and 95% of sales were in the United States for the nine months ended March 31, 2020 and 2019, respectively. Total revenue by major geographic area is as follows (in thousands):

	Three Months Ended March 31,	
	2020	2019
United States	\$ 14,251	\$ 16,039
Rest of world	526	687
Total revenue	\$ 14,777	\$ 16,726

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

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess our financial condition and results of operations. The following discussion should be read in conjunction with our condensed consolidated financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and accompanying notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Some of the numbers included herein have been rounded for the convenience of presentation. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed above in "Cautionary Statement Regarding Forward-Looking Statements" and elsewhere in this Form 10-Q.

Executive Summary

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

As of March 31, 2020, our cash and cash equivalents were \$3.2 million. On March 29, 2019, we entered into a Second Amended and Restated Credit Agreement ("Second A&R Credit Agreement"), which amended and restated our prior credit agreement, as amended ("Prior Credit Agreement"), revised certain covenants and increased our credit availability by \$10.0 million, subject to the discretion of our lenders. On May 6, 2020, we entered into a First Amendment to the Second Amended and Restated Credit Agreement ("First Amendment"), which amended the Second A&R Credit Agreement to extend the period over which interest does not accrue, extend the maturity and revise certain covenants. As of March 31, 2020, we had availability of \$12.2 million under our credit facility, subject to the discretion of our lenders. We believe that cash and cash equivalents, together with the availability under the Second A&R Credit Agreement, will be sufficient to meet our anticipated cash requirements for at least 12 months.

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

Potential Impact of the COVID-19 Pandemic

The global COVID-19 pandemic has led to the closure of businesses, severe travel restrictions and social distancing. Hospitals and other medical facilities have canceled elective surgeries, reduced and diverted staffing and diverted resources to patients suffering from the infectious disease and limited hospital access for non-patients, including our direct and indirect sales representatives. Because of the COVID-19 pandemic, surgeons and their patients are required, or are choosing, to defer procedures in which our products otherwise would be used, and many facilities that specialize in the procedures in which our products otherwise would be used have closed or reduced operating hours. These circumstances have negatively impacted the ability of our employees, independent sales representatives and distributors to effectively market and sell our products, which has already had and will likely continue to have a material adverse effect on our revenues. In addition, even after the pandemic has subsided and/or governmental orders no longer prohibit or recommend against performing such procedures, patients may continue to defer such procedures out of concern of being exposed to coronavirus or for other reasons.

The COVID-19 pandemic has also caused adverse effects on general commercial activity and the global economy, which could lead to an economic slowdown or recession or cause other unpredictable events, each of which could adversely affect our business, operating results or financial condition. The adverse effect of the pandemic on the broader economy also will likely negatively affect demand for procedures using our products, both in the near- and long-term, and could cause one or more of our distributors, independent sales representatives, customers, contract manufacturers and suppliers to experience financial distress, cancel, postpone or delay orders, be unable to perform under a contract, file for bankruptcy protection, go out of business, or suffer disruptions in their business. This could impact our ability to manufacture and provide products and otherwise operate our business, as well as increase our costs and expenses.

The anticipated decline in our revenues and adverse impact on our other operating results could impact our debt covenants under our credit facility and our ability to access funding thereunder. We may need to borrow funds from alternative sources, such as other lenders and institutions or government agencies. There can be no guarantee that such borrowing will be available or available on favorable terms or without restrictions that may otherwise impair our operating flexibility. The COVID-19 pandemic has also led to and could continue to lead to severe disruption and volatility in the global capital markets, which could increase our cost of future capital and adversely affect our ability to access the capital markets in the future.

In response to the COVID-19 pandemic, we recently implemented a series of cost-savings actions intended to preserve capital to support our operations. These temporary cost-saving actions include:

- termination or furlough of 42% of our workforce;
- suspension in hiring most open positions;
- elimination of planned merit increases;
- institution of a temporary 20% base salary or wage reduction for all executive officers and employees;
- 20% reduction in non-employee director retainers;
- suspension of future 401(k) plan matching contributions by the Company;
- reduction in sales and marketing expenses and other discretionary spending; and
- elimination of all capital expenditures, except for certain items related to improving the efficiency of our biologics production.

The foregoing and other continued disruptions to our business as a result of COVID-19 could result in a material adverse effect on our business, operating results, financial condition, prospects and the trading price of our common stock in the near-term and beyond 2020. The full extent to which the COVID-19 pandemic will impact our business will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions to contain it or treat its impact.

Results of Operations

Comparison of Three Months Ended March 31, 2020 and March 31, 2019

Revenue

Total revenue for the three months ended March 31, 2020 was \$14.8 million, which represents a decrease of 11.6% compared to \$16.7 million in the same quarter of the prior year. The decrease in revenue is attributed to the impact of COVID-19 and the sudden drop in elective procedures beginning early March as a result of the COVID-19 pandemic.

Cost of Sales

Cost of sales consists primarily of manufacturing and product purchase costs as well as depreciation of surgical trays. Cost of sales also includes reserves for estimated excess inventory, inventory on consignment that may be missing and not returned, and reserves for estimated missing and damaged consigned surgical instruments. Cost of sales decreased by 12.6%, or \$0.7 million, to \$5.2 million for the three months ended March 31, 2020 from \$5.9 million for the three months ended March 31, 2019. The reduction in cost of sales is primarily due to lower revenue in the first quarter of 2020 versus the first quarter of 2019. As a percentage of revenue, cost of sales remained consistent year over year.

General and Administrative

General and administrative expenses consist principally of personnel costs for corporate employees, cash-based and stock-based compensation related costs, and corporate expenses for legal, accounting, professional fees, and occupancy costs. General and administrative expenses decreased 3.5%, or \$0.2 million, to \$4.3 million for the three months ended March 31, 2020, compared to \$4.5 million for the same period in 2019. This decrease is primarily attributable to legal settlement expenses totaling \$0.5 million and lower legal and consulting fees of \$0.5 million in the first quarter of 2019, partially offset by severance related expenses totaling \$0.7 million in the first quarter of 2020.

Sales and Marketing

Sales and marketing expenses consist primarily of sales commissions, personnel costs for sales and marketing employees, costs for trade shows, sales conventions and meetings, travel expenses, advertising, and other sales and marketing related costs. Sales and marketing expenses decreased 4.9%, or \$0.3 million, to \$6.4 million for the three months ended March 31, 2020, compared to \$6.7 million for the same period of 2019. This decrease is primarily due to the reduction in sales commissions of \$0.4 million due to lower revenues year over year. As a percentage of revenue, sales and marketing expenses increased to 43.4% in the three months ended March 31, 2020 from 40.3% in the comparable period in the prior year due primarily to decreased revenue.

Research and Development

Research and development expenses consist primarily of internal costs for the development of new technologies and processes. Research and development expenses of \$0.2 million for the three months ended March 31, 2020 were comparable to the same period in 2019.

Interest Expense

Interest expense is related to interest incurred from our debt instruments. Interest expense was \$1.1 million for the three months ended March 31, 2020 compared to \$2.0 million for the three months ended March 31, 2019. The decrease in interest expense is due to the lower effective interest rate, effective beginning second quarter 2019, as a result of the execution of the Second A&R Credit Agreement on March 29, 2019.

Change in Warrant Derivative Liability

For the three months ended March 31, 2020, we recorded a gain in our non-cash warrant derivative liability of \$6 thousand, which was primarily driven by the change in the closing price of our common stock at March 31, 2020 and 2019, respectively. This liability is associated with the issuance of warrants as part of our prior convertible debt financing, our 2010 financing, and our 2014 equity financing, which contain certain provisions requiring us to record a change in the fair value of the warrant derivative liability from period to period.

Liquidity and Capital Resources

Working Capital

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

	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 3,239	\$ 5,237
Accounts receivable, net	9,743	10,124
Inventories	18,044	16,101
Total current assets	32,110	32,246
Accounts payable	3,609	2,188
Accrued liabilities	5,910	6,625
Total current liabilities	10,059	9,390
Total working capital	22,051	20,856
Long-term debt, less issuance costs	77,345	76,244

Cash Flows

Net cash used by operating activities for the first three months of 2020 was \$1.8 million attributed to the increase in inventories of \$2.0 million, the reduction of accrued liabilities of \$0.7 million offset partially by the increase in accounts payable of \$1.4 million. For the comparable period of 2019, net cash provided by operating activities was \$0.5 million.

Net cash used in investing activities for the first three months of 2020 and 2019 was \$0.2 million and \$0.1 million, respectively, primarily representing purchases of property and equipment.

Net cash used in financing activities was \$34 thousand and \$0.1 million for the first three months of 2020 and 2019, respectively, primarily representing payments for financing leases.

Credit Facility

On March 29, 2019, we entered into the Second A&R Credit Agreement with the Lenders, which amended and restated the Prior Credit Agreement. The Second A&R Credit Agreement amended the Prior Credit Agreement to provide that we may request term loans from the Lenders in their sole discretion in an amount equal to the remaining availability for additional delayed draw loans, which was approximately \$2.2 million as of the date of the Second A&R Credit Agreement, and request additional term loans from the Lenders in their sole discretion in an aggregate amount of up to \$10.0 million, the amount of each loan draw to be also subject to our production of a thirteen-week cash flow forecast that is approved by the Lenders and which shows a projected cash balance for the following two-week period of less than \$1.5 million, as well as the satisfaction (or waiver in writing by each Lender) of conditions precedent, including closing certificate, delivery of budget, and other satisfactory documents. In addition, the Second A&R Credit Agreement provides that (i) no interest will accrue on the loans thereunder from and after January 1, 2019, until March 31, 2020; (ii) beginning April 1, 2020, through the maturity date of the Second A&R Credit Agreement, interest payable in cash will accrue on the loans thereunder at a rate per annum equal to the sum of (a) 10.00% plus (b) the higher of (x) the LIBO Rate (as such term is defined in the Second A&R Credit Agreement) and (y) 2.3125%; (iii) the maturity date of the Loans is March 31, 2021; (iv) the Consolidated Senior Leverage Ratio and Consolidated EBITDA (as such terms were defined in the Prior Credit Agreement) financial covenants were deleted and a new Revenue Base (as such term is defined in the Second A&R Credit Agreement) financial covenant was added; and (v) the key person event default provision was revised to refer specifically to certain then recently-hired executive officers of the Company.

On May 6, 2020, we entered into a First Amendment to the Second Amended and Restated Credit Agreement (“First Amendment”) with the Lenders, which amended the Second A&R Credit Agreement dated March 29, 2019 among the parties thereto. Under the terms of the First Amendment, the Second A&R Credit Agreement was amended to provide that:

- No interest will accrue on the outstanding loans under the Second Amended and Restated Credit Agreement (the “Loans”) from and after March 31, 2020 until September 30, 2020;
- Beginning October 1, 2020 through the maturity date of the Second A&R Credit Agreement, interest payable in cash will accrue on the Loans under the Second A&R Credit Agreement at a rate per annum equal to the sum of (i) 10.00% plus (ii) the higher of (x) the LIBO Rate (as such term is defined in the Second A&R Credit Agreement) and (y) 2.3125%;
- The maturity date of the Loans is December 31, 2021;
- The Revenue Base financial covenant was revised through December 31, 2021; and
- The key person event default provision was revised to refer specifically to Sean Browne in lieu of Ron Berlin.

As of March 31, 2020, we were in compliance with, or had obtained waivers for, all covenants.

Cash Requirements

We believe that our March 31, 2020 cash and cash equivalents of \$3.2 million, together with the availability of \$12.2 million under our Second A&R Credit Agreement, will be sufficient to meet our anticipated cash requirements for at least 12 months. However, we may require additional funds to fund our future operations and business strategy. Accordingly, there is no assurance that we will not need or seek additional funding prior to such time. We may elect to raise additional funds even before we need them if market conditions for raising additional capital are favorable. We may seek to raise additional funds through various sources, such as equity and debt financings, additional debt restructurings or refinancings, or through strategic collaborations and license agreements. We can give no assurances that we will be able to secure additional sources of funds to support our operations, or if such funds are available to us, that such additional financing will be sufficient to meet our needs or on terms acceptable to us. This is particularly true if economic and market conditions deteriorate.

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

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures, or capital resources that are material to an investor in our common stock.

Critical Accounting Estimates

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

There have been no changes in our critical accounting estimates for the three months ended March 31, 2020 as compared to the critical accounting estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 other than for adoption of ASU 2016-13 as described in Note 1 and Note 3 to our condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Limitations on Effectiveness of Controls and Procedures

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

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of March 31, 2020. Based upon that evaluation, our principal executive officer and principal financial officer concluded that as of March 31, 2020, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Although Item 1A is inapplicable to Xtant as a smaller reporting company, we hereby disclose the following additional risk:

The Company's business, operating results and financial condition has already been and will likely continue to be materially adversely affected by the global novel strain of coronavirus (COVID-19) pandemic.

The global COVID-19 pandemic has led to the closure of businesses, severe travel restrictions and social distancing. Hospitals and other medical facilities have canceled elective surgeries, reduced and diverted staffing and diverted resources to patients suffering from the infectious disease and limited hospital access for non-patients, including our direct and indirect sales representatives. Because of the COVID-19 pandemic, surgeons and their patients are required, or are choosing, to defer procedures in which our products otherwise would be used, and many facilities that specialize in the procedures in which our products otherwise would be used have closed or reduced operating hours. These circumstances have negatively impacted the ability of our employees, independent sales representatives and distributors to effectively market and sell our products, which has already had and will likely continue to have a material adverse effect on our revenues. In addition, even after the pandemic has subsided and/or governmental orders no longer prohibit or recommend against performing such procedures, patients may continue to defer such procedures out of concern of being exposed to coronavirus or for other reasons.

The COVID-19 pandemic has also caused adverse effects on general commercial activity and the global economy, which could lead to an economic slowdown or recession or cause other unpredictable events, each of which could adversely affect our business, operating results or financial condition. The adverse effect of the pandemic on the broader economy also will likely negatively affect demand for procedures using our products, both in the near- and long-term. In addition, as a result of this negative effect on our economy, one or more of our distributors, independent sales representatives, customers, contract manufacturers and suppliers may experience financial distress, cancel, postpone or delay orders, be unable to perform under a contract, file for bankruptcy protection, go out of business, or suffer disruptions in their business or we may need to offer special payment terms or relief to our distributors, independent sales representatives and customers. Accordingly, we believe we will be exposed to heightened credit risk as a result of the pandemic. This could adversely impact our ability to manufacture and provide products and otherwise operate our business, as well as increase our costs and expenses.

The anticipated decline in our revenues and adverse impact on our other operating results could impact our debt covenants under our credit facility and our ability to access funding thereunder. We may need to borrow funds from alternative sources, such as other lenders and institutions or government agencies. There can be no guarantee that such borrowing will be available or available on favorable terms or without restrictions that may otherwise impair our operating flexibility. The COVID-19 pandemic has also led to and could continue to lead to severe disruption and volatility in the global capital markets, which could increase our cost of future capital and adversely affect our ability to access the capital markets in the future.

The foregoing and other continued disruptions to our business as a result of COVID-19 could result in a material adverse effect on our business, operating results, financial condition, prospects and the trading price of our common stock in the near-term and beyond 2020. The full extent to which the COVID-19 pandemic will impact our business will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions to contain it or treat its impact. The COVID-19 pandemic also heightens the risks in certain of the other risk factors described in our Annual Report Form 10-K for the year ended December 31, 2019.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On May 6, 2020, Xtant Medical Holdings, Inc., and our subsidiaries, Bacterin International, Inc., Xtant Medical Systems, Inc. and X-spine Systems, Inc., entered into a First Amendment to the Second Amended and Restated Credit Agreement (“First Amendment”) with OrbiMed Royalty Opportunities II, LP and ROS Acquisition Offshore LP (collectively, the “Lenders”), which amended the Second Amended and Restated Credit Agreement dated March 29, 2019 among the parties thereto (the “Second A&R Credit Agreement”).

Under the terms of the First Amendment, the Second A&R Credit Agreement was amended to provide that:

- No interest will accrue on the outstanding loans under the Second A&R Credit Agreement (the “Loans”) from and after March 31, 2020 until September 30, 2020;
- Beginning October 1, 2020 through the maturity date of the Second A&R Credit Agreement, interest payable in cash will accrue on the Loans under the Second A&R Credit Agreement at a rate per annum equal to the sum of (i) 10.00% plus (ii) the higher of (x) the LIBO Rate (as such term is defined in the Second A&R Credit Agreement) and (y) 2.3125%;
- The maturity date of the Loans is December 31, 2021;
- The Revenue Base financial covenant was revised through December 31, 2021; and
- The key person event default provision was revised to refer specifically to Sean Browne in lieu of Ron Berlin.

On May 6, 2020 Xtant issued warrants to purchase an aggregate of 2,400,000 shares of Company common stock to the Lenders, with an exercise price of \$0.01 per share and an expiration date of May 6, 2030 (collectively, the “2020 Warrants”). The issuance of the 2020 Warrants was a condition to the effectiveness of the First Amendment. The number of shares of Company common stock issuable upon exercise of the 2020 Warrants are subject to standard and customary anti-dilution provisions for stock splits, stock dividends or similar transactions. The issuance of the 2020 Warrants was exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”) pursuant to Section 4(a)(2) thereof and/or Regulation D promulgated thereunder. The issuance of any shares of Company common stock in connection with the exercise of the 2020 Warrants is also expected to be exempt from the registration requirements of the Securities Act, pursuant to Section 4(a)(2) thereof and/or Regulation D promulgated thereunder.

The Lenders, which collectively own approximately 70% of the Company’s outstanding common stock, and beneficially own, with their warrants, approximately 75% of the Company’s common stock, are the sole holders of the Company’s outstanding long-term debt. In addition, as described in more detail in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 5, 2020, the Company is a party to an Investor Rights Agreement and Registration Rights Agreement with the Lenders in addition to the Second A&R Credit Agreement.

The foregoing summary description of the First Amendment and 2020 Warrants does not purport to be complete and is qualified in its entirety by reference to the full text of First Amendment which is filed as Exhibit 10.1 and the 2020 Warrants which are filed as Exhibit 4.1 and Exhibit 4.2 to this report and incorporated herein by reference.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
3.1	<u>Amended and Restated Certificate of Incorporation of Xtant Medical Holdings, Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 13, 2018 (SEC File No. 0-34941) and incorporated by reference herein).</u>
3.2	<u>Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Xtant Medical Holdings, Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 31, 2019 (SEC File No. 0-34941) and incorporated by reference herein).</u>
3.3	<u>Second Amended and Restated Bylaws of Xtant Medical Holding, Inc. (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 16, 2018 (SEC File No. 0-34941) and incorporated by reference herein).</u>
4.1	<u>Warrant dated as of May 6, 2020 issued by Xtant Medical Holdings, Inc. to ROS Acquisition Offshore LP (filed herewith).</u>
4.2	<u>Warrant dated as of May 6, 2020 issued by Xtant Medical Holdings, Inc. to OrbiMed Royalty Opportunities II, LP (filed herewith).</u>
10.1	<u>First Amendment to Second Amended and Restated Credit Agreement effective as of April 1, 2020 among Xtant Medical Holdings, Inc., Bacterin International, Inc., Xtant Medical Systems, Inc., X-spine Systems, Inc., OrbiMed Royalty Opportunities II, LP and ROS Acquisition Offshore LP (filed herewith).</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
101	The following materials from Xtant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Condensed Consolidated Balance Sheets, (ii) the unaudited Condensed Consolidated Statements of Operations, (iii) the unaudited Condensed Consolidated Statements of Equity (Deficit), (iv) the unaudited Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XTANT MEDICAL HOLDINGS, INC.

Date: May 7, 2020

By: /s/ Sean E. Browne

Name: Sean E. Browne

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

Date: May 7, 2020

By: /s/ Greg Jensen

Name: Greg Jensen

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

THIS WARRANT AND THE SECURITIES PURCHASABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FILED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS, UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

XTANT MEDICAL HOLDINGS, INC.

WARRANT

dated as of May 6, 2020

THIS CERTIFIES THAT, for value received, ROS ACQUISITION OFFSHORE LP or its successors or permitted assigns (such Person and such successors and assigns each being the "Warrant Holder" with respect to the Warrant held by it), at any time and from time to time on any Business Day on or prior to 5:00 p.m. (New York City time), on the Expiration Date (as herein defined), is entitled (a) to subscribe for the purchase from Xtant Medical Holdings, Inc., a Delaware corporation (the "**Company**"), 1,531,984 Shares at a price per Share equal to the Exercise Price (as herein defined), and (b) to the other rights set forth herein; provided that the number of Shares issuable upon any exercise of this Warrant and the Exercise Price shall be adjusted and readjusted from time to time in accordance with Section 4. By accepting delivery hereof, the Warrant Holder agrees to be bound by the provisions hereof.

IN FURTHERANCE THEREOF, the Company irrevocably undertakes and agrees for the benefit of the Warrant Holder as follows:

Section 1. Definitions and Construction.

(a) Certain Definitions. As used herein (the following definitions being applicable in both singular and plural forms):

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly controls, is controlled by, or is under common control with such Person.

"Appraised Value" means at any time the fair market value thereof determined in good faith by the Board of Directors of the Company as of a date which is within ten days of the date as of which the determination is to be made, subject to the rights of the Requisite Holders pursuant to Section 4(m).

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

“**Closing Price**” means, for any trading day with respect to a Share, (a) the last reported sale price on such day on the principal national securities exchange on which the Shares are listed or admitted to trading or, if no such reported sale takes place on any such day, the average of the closing bid and asked prices thereon, as reported in The Wall Street Journal, or (b) if such Shares shall not be listed or admitted to trading on a national securities exchange, the last reported sales price on the NASDAQ National Market System or, if no such reported sale takes place on any such day, the average of the closing bid and asked prices thereon, as reported in The Wall Street Journal, or (c) if such Shares shall not be quoted on such National Market System nor listed or admitted to trading on a national securities exchange, then the average of the closing bid and asked prices, as reported by The Wall Street Journal for the over-the-counter market; provided that if clause (a), (b), or (c) applies and no price is reported in The Wall Street Journal for any trading day, then the price reported in The Wall Street Journal for the most recent prior trading day shall be deemed to be the price reported for such trading day.

“**Commission**” means the Securities and Exchange Commission or any other Federal agency administering the Securities Act at the time.

“**Exchange Act**” means the Securities Exchange Act of 1934, or any successor Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

“**Exercise Amount**” means for any number of Warrant Shares as to which this Warrant is being exercised the product of (i) such number of Warrant Shares times (ii) the Exercise Price.

“**Exercise Price**” means \$0.01 per Warrant Share, as adjusted from time to time pursuant to Section 4.

“**Expiration Date**” means May 6, 2030.

“**Initial Holder**” means ROS Acquisition Offshore LP.

“**Market Price**” on any day means (a) the unweighted average of the daily Closing Prices per Share for the 20 consecutive trading days prior to such date or (b) if clauses (a), (b) and (c) of the definition of “Closing Price” are inapplicable, then the Appraised Value as of such day shall apply.

“**Person**” means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“**Requisite Holders**” means at any time holders of Warrant Shares and Warrants representing at least a majority of all of the Warrant Shares either outstanding or issuable upon the exercise of all the outstanding Warrants.

“**Securities Act**” means the Securities Act of 1933, or any successor Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

“**Shares**” means the Company’s currently authorized common stock, \$0.000001 par value, and stock of any other class or other consideration into which such currently authorized capital stock may hereafter have been changed.

“Warrant” means, as the context requires, this warrant and any successor warrant hereto or warrants issued upon a whole or partial transfer or assignment of any such Share purchase warrant or of any such successor warrant hereto.

“Warrant Shares” means the number of Shares issued or issuable upon exercise of this Warrant as set forth in the introduction hereto, as adjusted from time to time pursuant to Section 4.

(b) Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with generally accepted accounting principles. When used herein, the term “financial statements” shall include the notes and schedules thereto. References to fiscal periods are to fiscal periods of the Company.

(c) Computation of Time Periods. With respect to the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”. Periods of days shall be counted in calendar days unless otherwise stated.

(d) Construction. Unless the context requires otherwise, references to the plural include the singular and to the singular include the plural, references to any gender include any other gender, the part includes the whole, the term “including” is not limiting, and the term “or” has, except where otherwise indicated, the inclusive meaning represented by the phrase “and/or”. The words “hereof”, “herein”, “hereby”, “hereunder” and similar terms in this Warrant refer to this Warrant as a whole and not to any particular provision of this Warrant. Section, subsection, clause, exhibit and schedule references are to this Warrant, unless otherwise specified. Any reference to this Warrant includes any and all permitted alterations, amendments, changes, extensions, modifications, renewals, or supplements hereto or hereof, as applicable.

(e) Exhibits and Schedules. All of the exhibits and schedules attached hereto shall be deemed incorporated herein by reference.

(f) No Presumption Against Any Party. Neither this Warrant nor any uncertainty or ambiguity herein shall be construed or resolved using any presumption against any party hereto, whether under any rule of construction or otherwise. On the contrary, this Warrant has been reviewed by each of the parties and their counsel and, in the case of any ambiguity or uncertainty, shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

Section 2. Exercise of Warrant.

(a) Exercise and Payment. The Warrant Holder may exercise this Warrant in whole or in part, at any time or from time to time on any Business Day, beginning six months after the date on which this Warrant is issued, on or prior to the Expiration Date, by delivering to the Company either the original Warrant or a lost warrant affidavit, a duly executed notice (a “**Notice of Exercise**”) in the form of Exhibit A and by payment to the Company of the Exercise Price per Warrant Share, at the election of the Warrant Holder, either (i) by wire transfer of immediately available funds to the account of the Company in an amount equal to the Exercise Amount, (ii) by receiving from the Company the number of Warrant Shares equal to (A) the number of Warrant Shares as to which this Warrant is being exercised minus (B) the number of Warrant Shares having a value, based on the Closing Price on the trading day immediately prior to the date of such exercise (or if there is no such Closing Price, then based on the Appraised Value as of such day), equal to the Exercise Amount, or (iii) any combination of the foregoing. The Company acknowledges that the provisions of clause (ii) are intended, in part, to ensure that a full or partial exchange of this Warrant pursuant to such clause (ii) will qualify as a conversion, within the meaning of paragraph (d)(3)(ii) of Rule 144 under the Securities Act. At the request of any Warrant Holder, the Company will accept reasonable modifications to the exchange procedures provided for in this Section in order to accomplish such intent. For all purposes of this Warrant (other than this Section 2(a)), any reference herein to the exercise of this Warrant shall be deemed to include a reference to the exchange of this Warrant into Shares in accordance with the terms of clause (ii).

(b) Effectiveness and Delivery. As soon as practicable but not later than five Business Days after the Company shall have received such Notice of Exercise, (provided requisite payment shall have been received prior to such date), the Company shall execute and deliver or cause to be executed and delivered, in accordance with such Notice of Exercise, a certificate or certificates representing the number of Shares specified in such Notice of Exercise, issued in the name of the Warrant Holder or in such other name or names of any Person or Persons designated in such Notice of Exercise. This Warrant shall be deemed to have been exercised and such Share certificate or certificates shall be deemed to have been issued, and the Warrant Holder or other Person or Persons designated in such Notice of Exercise shall be deemed for all purposes to have become a holder of record of Shares, all as of the date that such Notice of Exercise.

(c) Surrender of Warrant. The Warrant Holder shall surrender this Warrant to the Company when it delivers the Notice of Exercise, and in the event of a partial exercise of the Warrant, the Company shall execute and deliver to the Warrant Holder, at the time the Company delivers the Share certificate or certificates issued pursuant to such Notice of Exercise, a new Warrant for the unexercised portion of the Warrant, but in all other respects identical to this Warrant.

(d) Legend. Each certificate for Warrant Shares issued upon exercise of this Warrant, unless at the time of exercise such Warrant Shares are registered under the Securities Act, shall bear the following legend:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FILED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS, UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

Any certificate for Warrant Shares issued at any time in exchange or substitution for any certificate bearing such legend (unless at that time such Warrant Shares are registered under the Securities Act) shall also bear such legend unless, in the written opinion of counsel selected by the holder of such certificate (who may be an employee of such holder), which counsel and opinion shall be reasonably acceptable to the Company, the Warrant Shares represented thereby need no longer be subject to restrictions on resale under the Securities Act. If the Warrant is exercised when there is an effective registration statement covering the underlying Warrant Shares, the certificate for the Warrant Shares shall not bear a legend.

(e) No Fractional Shares. No fractional Shares shall be issued by the Company in connection with any exercise of this Warrant. If any fractional Shares would, but for this restriction, be issuable upon an exercise of the Warrant, in lieu of delivering such fractional Shares, the number of Shares to be issued shall be rounded down to the next whole number and the Company shall pay to the Warrant Holder, in cash, an amount equal to the same fraction times the Closing Price on the trading day immediately prior to the date of such exercise (or if there is no such Closing Price, then based on the Appraised Value as of such day).

(f) Expenses and Taxes. Except for taxes payable with respect to any income or revenue realized or recognized by the Warrant Holder or any transferee thereof, the Company shall pay all expenses, taxes and owner charges payable in connection with the preparation, issuance and delivery of certificates for the Warrant Shares and any new Warrants, except that if the certificates for the Warrant Shares or the new Warrants are to be registered in a name or names other than the name of the Warrant Holder, funds sufficient to pay all transfer taxes payable as a result of such transfer shall be paid by the Warrant Holder at the time of its delivery of the Notice of Exercise or promptly upon receipt of a written request by the Company for payment.

Section 3. Validity of Warrant and Issuance of Shares.

(a) The Company represents and warrants that this Warrant has been duly authorized, is validly issued, and constitutes the valid and binding obligation of the Company.

(b) The Company further represents and warrants that on the date hereof it has duly authorized and reserved, and the Company hereby agrees that it will at all times until the Expiration Date have duly authorized and reserved, such number of Shares as will be sufficient to permit the exercise in full of the Warrant, and that all such Shares are and will be duly authorized and, when issued upon exercise of the Warrant, will be validly issued, fully paid and non-assessable, and free and clear of all security interests, claims, liens, equities and other encumbrances.

Section 4. Antidilution Provisions. The Exercise Price in effect at any time, and the number of Warrant Shares that may be purchased upon any exercise of the Warrant, shall be subject to change or adjustment as follows:

(a) Share Reorganization. If the Company shall subdivide its outstanding Shares into a greater number of Shares, by way of a stock split, stock dividend or otherwise, or consolidate its outstanding Shares into a smaller number of Shares (any such event being herein called a “**Share Reorganization**”), then (i) the Exercise Price shall be adjusted, effective immediately after the effective date of such Share Reorganization, to a price determined by multiplying the Exercise Price in effect immediately prior to such effective date by a fraction, the numerator of which shall be the number of Shares outstanding on such effective date before giving effect to such Share Reorganization and the denominator of which shall be the number of Shares outstanding after giving effect to such Share Reorganization, and (ii) the number of Shares subject to purchase upon exercise of this Warrant shall be adjusted, effective at such time, to a number determined by multiplying the number of Shares subject to purchase immediately before such Share Reorganization by a fraction, the numerator of which shall be the number of Shares outstanding after giving effect to such Share Reorganization and the denominator of which shall be the number of Shares outstanding immediately before giving effect to such Share Reorganization.

(b) [Reserved].

(c) Special Distributions; Above Market Purchases of Securities.

(i) If the Company shall issue or distribute to any holder or holders of Shares evidences of indebtedness, any other securities of the Company or any cash, property or other assets (excluding (i) a Share Reorganization and (ii) a Share Distribution), whether or not accompanied by a purchase, redemption or other acquisition of Shares (any such non-excluded event being herein called a “**Special Distribution**”), then the Warrant Holder shall be entitled to a pro-rata Share of such Special Distribution as though the Warrant Holder had fully exercised this Warrant immediately prior to the record date for such Special Distribution, and the Company shall pay or distribute such pro-rata share to the Warrant Holder when paid or distributed to the holders of the Shares. A reclassification of the Shares (other than a change in par value, or from par value to no par value or from no par value to par value) into shares of any other class of stock shall be deemed to be a distribution by the Company to the holders of its Shares of such class of stock and, if the outstanding Shares shall be changed into a larger or smaller number of Shares as part of such reclassification, a Share Reorganization.

(ii) If, at any time after the date hereof, the Company or any Subsidiary shall repurchase (a “**Repurchase**”), by self-tender offer or otherwise, any securities of the Company at an aggregate repurchase price that exceeds the aggregate Market Price for the securities repurchased determined as of the Business Day immediately prior to the earliest of (i) the date of such Repurchase, (ii) the commencement of an offer to repurchase or (iii) the public announcement of either (such date being referred to as the “**Determination Date**”), then the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant shall be adjusted as follows:

The Exercise Price shall be reduced to an amount equal to the product of (A) the Exercise Price in effect immediately prior to such issuance or sale times (B) a fraction, (I) the numerator of which shall be (x) the product of (1) the Market Price for the Shares as of the Determination Date times (2) the number of Shares outstanding immediately following the consummation of the Repurchase less (y) the Repurchase Premium (as defined below), and (II) the denominator of which shall be (x) the product of (1) the Market Price for the Shares as of the Determination Date times (2) the number of Shares outstanding immediately following the consummation of the Repurchase.

The number of Warrant Shares issuable upon exercise of this Warrant shall be increased to the number of Shares determined by multiplying (x) the number of Warrant Shares issuable upon exercise of this Warrant immediately prior to such distribution times (y) a fraction (1) the numerator of which shall be the Exercise Price in effect immediately prior to the adjustment in clause (A) of this Section 4(c)(ii) and (2) the denominator of which shall be the Exercise Price in effect immediately after such adjustment.

The amount by which the aggregate repurchase price for all securities repurchased in any Repurchase (including for such purposes any fees or other direct or indirect consideration payable in connection therewith) exceeds the aggregate Market Price for such securities is referred to as the “**Repurchase Premium**”.

(d) Capital Reorganization. Without limiting any of the other provisions hereof, if any (i) capital reorganization; (ii) reclassification of the capital stock of the Company; (iii) merger, consolidation or reorganization or other similar transaction or series of related transactions which results in the voting securities of the Company outstanding immediately prior thereto representing immediately thereafter (either by remaining outstanding or by being converted into voting securities of the surviving or acquiring entity) less than 50% of the combined voting power of the voting securities of or economic interests in the Company or such surviving or acquiring entity outstanding immediately after such merger, consolidation or reorganization; (iv) sale, lease, license, transfer, conveyance or other disposition of all or substantially all of the assets of the Company; (v) sale of shares of capital stock of the Company, in a single transaction or series of related transactions, representing at least 50% of the voting power of the voting securities of or economic interests in the Company; or (vi) “person” (together with his, her or its Affiliates) or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) acquires, directly or indirectly, the beneficial ownership (as such term is defined in Rule 13d-3 promulgated under the Exchange Act) of outstanding shares of capital stock and/or other equity securities of the Company, in a single transaction or series of related transactions (including, without limitation, one or more tender offers or exchange offers), representing at least 50% of the voting power of or economic interests in the then outstanding shares of capital stock of the corporation shall be effected (each of clauses (i)-(vi) above, a “**Corporate Reorganization**”), then the Company shall use its best efforts to ensure that lawful and adequate provision shall be made whereby each Warrant Holder shall thereafter continue to have the right to purchase and receive upon the terms and conditions herein specified and in lieu of the Warrant Shares issuable upon exercise of the Warrants held by such Warrant Holder, shares of stock in the surviving or acquiring entity (“**Acquirer**”), as the case may be, such that the aggregate value of the Warrant Holder’s warrants to purchase such number of shares, where the value of each new warrant to purchase one share in the Acquirer is determined in accordance with the Black-Scholes Option Pricing formula set forth in Appendix (A) hereto, is equivalent to the aggregate value of the Warrants held by such Warrant Holder, where the value of each Warrant to purchase one share in the Company is determined in accordance with the Black-Scholes Option Pricing formula set forth in Appendix (B) hereto. Furthermore, the new warrants to purchase shares in the Acquirer referred to herein shall have the same expiration date as the Warrants, and shall have a strike price, K_{Acq} , that is calculated in accordance with Appendix (A) hereto. For the avoidance of doubt, if the surviving or acquiring entity, as the case may be, is a member of a consolidated group for financial reporting purposes, the “Acquirer” shall be deemed to be the parent of such consolidated group for purposes of this Section 4(d) and Appendix (A) hereto.

Moreover, appropriate provision shall be made with respect to the rights and interests of each Warrant Holder to the end that the provisions hereof (including, without limitation, provision for adjustment of the Warrant Price) shall thereafter be applicable, as nearly equivalent as may be practicable in relation to any shares of stock thereafter deliverable upon the exercise thereof. The Company shall not effect any such Corporate Reorganization unless prior to or simultaneously with the consummation thereof the successor corporation resulting from such consolidation or merger, or the corporation purchasing or otherwise acquiring such assets or other appropriate corporation or entity shall assume by written instrument, reasonably deemed by the Board of Directors of the Company and the Requisite Holders to be satisfactory in form and substance, the obligation to deliver to the holder of the Warrants, at the last address of such holder appearing on the books of the Company, such shares of stock, as, in accordance with the foregoing provisions, such holder may be entitled to purchase, and the other obligations under these Warrants. The provisions of this Section 4(d) shall similarly apply to successive Corporate Reorganizations. If the Company, in spite of using its best efforts, is unable to cause these Warrants to continue in full force and effect until the Expiration Date in connection with any Corporate Reorganization, then the Company shall pay the Warrant Holders an amount per Warrant to purchase one share in the Company that is calculated in accordance with the Black-Scholes Option Pricing formula set forth in Appendix (B) hereto. Such payment shall be made in cash in the event that the Corporate Reorganization results in the Company or the shareholders of the Company receiving cash from the Acquirer at the closing of the transaction, and shall be made in shares of the Company (with the value of each share in the Company is determined according to S_{Corp} in Appendix (B) hereto) for all other Corporate Reorganizations. In the event that a Corporate Reorganization involves the payment of cash as well as other securities, such payment to the Warrant Holders shall be also be made in both cash and shares in the same proportion as the cash and non-cash portions of the considerations.

(e) Adjustment Rules.

(i) Any adjustments pursuant to this Section 4 shall be made successively whenever any event referred to herein shall occur, except that, notwithstanding any other provision of this Section 4, no adjustment shall be made to the number of Warrant Shares to be delivered to the Warrant Holder (or to the Exercise Price) if such adjustment represents less than 1% of the number of Warrant Shares previously required to be so delivered, but any lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which together with any adjustments so carried forward shall amount to 1% or more of the number of Warrant Shares to be so delivered.

(ii) No adjustments shall be made pursuant to this Section 4 in respect of the issuance of Warrant Shares upon exercise of the Warrant.

(iii) If the Company shall take a record of the holders of its Shares for any purpose referred to in this Section 4, then (x) such record date shall be deemed to be the date of the issuance, sale, distribution or grant in question and (y) if the Company shall legally abandon such action prior to effecting such action, no adjustment shall be made pursuant to this Section 4 in respect of such action.

(iv) In computing adjustments under this Section 4, (A) fractional interests in Shares shall be taken into account to the nearest one-thousandth of a Share, and (B) calculations of the Exercise Price shall be carried to the nearest one-thousandth of one cent.

(f) Proceedings Prior to Any Action Requiring Adjustment. As a condition precedent to the taking of any action which would require an adjustment pursuant to this Section 4, the Company shall take any action which may be necessary, including obtaining regulatory approvals or exemptions, in order that the Company may thereafter validly and legally issue as fully paid and nonassessable all Shares which the Warrant Holder is entitled to receive upon exercise of the Warrant.

(g) Notice of Adjustment. Not less than 20 days prior to the record date or effective date, as the case may be, of any action which requires or might require an adjustment or readjustment pursuant to this Section 4, the Company shall give notice to the Warrant Holder of such event, describing such event in reasonable detail and specifying the record date or effective date, as the case may be, and, if determinable, the required adjustment and computation thereof. If the required adjustment is not determinable at the time of such notice, the Company shall give notice to the Warrant Holder of such adjustment and computation as soon as reasonably practicable after such adjustment becomes determinable. In connection with any such adjustment or readjustment, at its sole cost and expense, the Company will also cause independent certified public accountants of recognized national standing (which may be the regular auditors of the Company) selected by the Company to verify its computations and, in connection with the preparation of the Company's quarterly financial statements prepare a report setting forth such adjustment or readjustment and showing in reasonable detail the method of calculation thereof and the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or to be received by the Company for any Share Distribution issued or sold or deemed to have been issued, (ii) the number of Shares outstanding or deemed to be outstanding, and (iii) the Exercise Price in effect immediately prior to such issue or sale and as adjusted and readjusted (if required by this Section 4) on account thereof. The Company will forthwith mail a copy of each such report to the Warrant Holder and will, upon the written request at any time of the Warrant Holder, furnish to such holder a like report setting forth the Exercise Price at the time in effect and showing in reasonable detail how it was calculated. The Company will also keep copies of all such reports at its office and will cause the same to be available for inspection at such office during normal business hours by the Warrant Holder or any prospective purchaser of this Warrant designated by the Warrant Holder.

(h) Subsequent Warrants. Irrespective of any adjustments in the Exercise Price or the number of Warrant Shares issuable upon exercise of this Warrant, any successor or replacement warrants issued theretofore or thereafter may continue to express the same Exercise Price per Share and number and kind of Warrant Shares as are stated in this Warrant.

(i) Disputes. Any dispute which arises between the Warrant Holder and the Company with respect to the calculation of the adjusted Exercise Price or Warrant Shares issuable upon exercise shall be determined by the independent auditors of the Company, and such determination shall be binding upon the Company and the holders of the Warrants and the Warrant Shares if made in good faith and without manifest error.

(j) Other Actions Affecting Shares.

(i) Equitable Equivalent. In case any event shall occur as to which the provisions of this Section 4 set forth above hereof are not strictly applicable but the failure to make any adjustment would not, in the opinion of the Warrant Holder, fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles of this Section 4, then, in each such case, at the request of the Warrant Holder, the Company shall appoint, at the Company's expense, a firm of independent investment bankers of recognized national standing (which shall be completely independent of the Company and shall be satisfactory to the holder or the Requisite Holders), which shall give their opinion upon the adjustment, if any, on a basis consistent with the essential intent and principles established in this Section 4, necessary to preserve, in a manner so as to reduce dilution, the purchase rights represented by this Warrant. Upon receipt of such opinion, the Company will promptly mail a copy thereof to the holder of this Warrant and shall make the adjustments described therein.

(ii) No Avoidance. The Company shall not, by amendment of its certificate of incorporation or by-laws or through any consolidation, merger, reorganization, transfer of assets, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against unlimited dilution or other impairment as if the holder was a shareholder of the Company entitled to the benefit of fiduciary duties afforded to shareholders under Delaware law.

(k) Calculation of Consideration Received. The consideration for the issue or sale of any Share Distribution shall, irrespective of the accounting treatment of such consideration:

(i) insofar as it consists of cash, be computed at the amount of cash actually received by the Company without reduction for any expenses paid or incurred by the Company or any commissions or compensations paid or concessions or discounts allowed to underwriters, dealers or others performing similar services in connection with such issue or sale;

(ii) insofar as it consists of property (including securities) other than cash actually received by the Company, be computed at the Appraised Value thereof at the time of such issue or sale; and

(iii) insofar as it consists neither of cash nor of other property, be computed as having no value.

(l) Adjustment of Par Value. If for any reason (including the operation of the adjustment provisions set forth in this Warrant), the Exercise Price on any date of exercise of this Warrant shall not be lawful and adequate consideration for the issuance of the relevant Warrant Shares, then the Company shall take such steps as are necessary (including the amendment of its certificate of incorporation so as to reduce the par value of the Shares) to cause such Exercise Price to be adequate and lawful consideration on the date the payment thereof is due, but if the Company shall fail to take such steps, then the Company acknowledges that the Warrant Holder shall have been damaged by the Company in an amount equal to an amount, which, when added to the total Exercise Price for the relevant Warrant Shares, would equal lawful and adequate consideration for the issuance of such Warrant Shares, and the Company irrevocably agrees that if the Warrant Holder shall then forgive the right to recover such damages from the Company, such forgiveness shall constitute, and the Company shall accept such forgiveness as, additional lawful consideration for the issuance of the relevant Warrant Shares.

(m) Appraisal.

(i) If the Requisite Holders shall, for any reason whatsoever, disagree with the Company's determination of the Appraised Value of a Share, then such holders shall by notice to the Company (an "**Appraisal Notice**") given within 60 days after the Company notifies the holders of such determination, elect to dispute such determination, and such dispute shall be resolved as set forth in clause (ii) of this Section 4(m).

(ii) The Company shall within 10 days after an Appraisal Notice shall have been given, engage an independent investment bank of national repute (the “**Appraiser**”) selected by the Requisite Holders and retained pursuant to an engagement letter between the Company and the Appraiser with respect to such valuation in form and substance reasonably acceptable to the Requisite Holders, to make an independent determination of the Appraised Value of a Share; such value shall be determined without deduction for (a) liquidity considerations, (b) minority shareholder status, or (c) any liquidation or other preference or any right of redemption in favor of any other equity securities of the Company. The costs of engagement of such investment bank for any such determination of Appraised Value shall be paid by the Company.

Section 5. [Reserved].

Section 6. Transfer of Warrant. The Warrant Holder upon transfer of the Warrant must deliver to the Company a duly executed Warrant Assignment in the form of Exhibit B and upon surrender of this Warrant to the Company, the Company shall execute and deliver a new Warrant with appropriate changes to reflect such Assignment, in the name or names of the assignee or assignees specified in the Warrant Assignment or other instrument of assignment and, if the Warrant Holder’s entire interest is not being transferred or assigned, in the name of the Warrant Holder, and upon the Company’s execution and delivery of such new Warrant, this Warrant shall promptly be cancelled; and provided that any assignee shall have all of the rights of the Initial Holder hereunder. The Warrant Holder shall pay any transfer tax imposed in connection with such assignment (if any). Any transfer or exchange of this Warrant shall be without charge to the Warrant Holder (except as provided above with respect to transfer taxes, if any) and any new Warrant issued shall be dated the date hereof.

Section 7. Assistance in Disposition of Warrant or Warrant Shares. Notwithstanding any other provision herein, in the event that it becomes unlawful for the Warrant Holder to continue to hold the Warrant, in whole or in part, or some or all of the Shares held by it, or restrictions are imposed on the Warrant Holder by any statute, regulation or governmental authority which, in the judgment of the Warrant Holder, make it unduly burdensome to continue to hold the Warrant or such Shares, the Warrant Holder may sell or otherwise dispose of the Warrant (subject to the restrictions on transfer provided in Section 6) or its Shares, and the Company agrees to provide reasonable assistance to the Warrant Holder in disposing of the Warrant and such Shares in a prompt and orderly manner and, at the request of the Warrant Holder, to provide (and authorize the Warrant Holder to provide) financial and other information concerning the Company to any prospective purchaser of the Warrant or Shares owned by the Warrant Holder.

Section 8. Identity of Transfer Agent. The Transfer Agent for the Common Stock is Corporate Stock Transfer, Inc. with a mailing address of 3200 Cherry Creek Drive South #430, Denver, CO 80209. Upon the appointment of any subsequent transfer agent for the Shares, the Company will mail to the Warrant Holder a statement setting forth the name and address of such transfer agent.

Section 9. Covenants. The Company agrees that:

(a) [Reserved].

(b) [Reserved].

(c) [Reserved].

(d) Securities Filings; Rules 144 & 144A. The Company will (i) timely file any reports required to be filed by it under the Securities Act, the Exchange Act or the rules and regulations adopted by the Commission thereunder, (ii) use its best efforts to cooperate with the Warrant Holder and each holder of Warrant Shares in supplying such information concerning the Company as may be necessary for the Warrant Holder or holder of Warrant Shares to complete and file any information reporting forms currently or hereafter required by the Commission as a condition to the availability of an exemption from the Securities Act for the sale of any Warrants or Warrant Shares, and (iii) take such further action as the Warrant Holder may reasonably request to the extent required from time to time to enable the Warrant Holder to sell Warrant Shares without restriction and without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 or 144A under the Securities Act, as such Rules may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission; provided that this subsection (d) shall not require the Company to make any filing under the Securities Act or Exchange Act which the Company is not otherwise obligated to make; and provided, further, that this subsection (d) shall not require the Company to make any cash payment to the Warrant Holder.

(e) Obtaining of Governmental Approvals and Stock Exchange Listings. The Company will, at its own expense, (i) obtain and keep effective any and all permits, consents and approvals of governmental agencies and authorities which may from time to time be required of the Company in order to satisfy its obligations hereunder, and (ii) take all action which may be necessary so that the Warrant Shares, immediately upon their issuance upon the exercise of the Warrants, will be listed on each securities exchange, if any, on which the Shares are then listed.

(f) [Reserved].

(g) Structural Dilution. So long as this Warrant remains outstanding, the Company shall not permit any of its Subsidiaries to issue, sell, distribute or otherwise grant in any manner (including by assumption) any rights to subscribe for or to purchase, or any warrants or options for the purchase of any equity securities of such Subsidiary or any securities convertible into or exchangeable for such equity securities (or any rights to subscribe for or to purchase, or any warrants or options for the purchase of any such convertible or exchangeable securities), whether or not immediately exercisable or exercisable prior to the Expiration Date or thereafter.

(h) Notices Of Corporate Action. In the event of:

(i) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any distribution, or any right to subscribe for, purchase or otherwise acquire any Shares or any other securities or property, or to receive any other right, or

(ii) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any consolidation or merger involving the Company and any other Person or any transfer of all or substantially all the assets of the Company to any other Person, or any Corporate Reorganization, or

(iii) any voluntary or involuntary dissolution, liquidation or winding-up of the Company, or

(iv) any issuance of any Shares, Convertible Security or Option by the Company,

the Company will mail to the Warrant Holder a notice specifying (i) the date or expected date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right, (ii) the date or expected date on which any such reorganization, reclassification, recapitalization, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, (iii) the time, if any such time is to be fixed, as of which the holders of record of Shares (or other securities under Section 4(d)) shall be entitled to exchange their Shares (or other securities under Section 4(d)) for the securities or other property deliverable upon such reorganization, reclassification, recapitalization, consolidation, merger, transfer, dissolution, liquidation or winding-up and a description in reasonable detail of the transaction and (iv) the date of such issuance, together with a description of the security so issued and the consideration received by the Company therefor. Such notice shall be mailed at least 20 days prior to the date therein specified.

Section 10. Lost, Mutilated or Missing Warrants. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant, and, in the case of loss, theft or destruction, upon receipt of indemnification satisfactory to the Company (in the case of the Initial Holder its unsecured, unbonded agreement of indemnity or affidavit of loss shall be sufficient) or, in the case of mutilation, upon surrender and cancellation of the mutilated Warrant, the Company shall execute and deliver a new Warrant of like tenor and representing the right to purchase the same aggregate number of Warrant Shares.

Section 11. Waivers; Amendments. Any provision of this Warrant may be amended or waived with (but only with) the written consent of the Company and the Requisite Holders; provided that no such amendment or waiver shall, without the written consent of the Company and the Warrant Holder, (a) change the number of Warrant Shares issuable upon exercise of the Warrant or the Exercise Price, (b) shorten the Expiration Date, or (c) amend, modify or waive the provisions of this Section 11 or the definition of "Requisite Holders". Any amendment or waiver effected in compliance with this Section 11 shall be binding upon the Company and the Warrant Holder. The Company shall give prompt notice to the Warrant Holder of any amendment or waiver effected in compliance with this Section 11. No failure or delay of the Company or the Warrant Holder in exercising any power or right hereunder shall operate as a waiver hereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No notice or demand on the Company in any case shall entitle the Company to any other or future notice or demand in similar or other circumstances. The rights and remedies of the Company and the Warrant Holder hereunder are cumulative and not exclusive of any rights or remedies which it would otherwise have.

Section 12. Miscellaneous.

(a) Shareholder Rights. The Warrant shall not entitle any Warrant Holder, prior to the exercise of the Warrant, to any voting or other rights as a shareholder of the Company.

(b) Expenses. The Company shall pay all reasonable expenses of the Warrant Holder, including reasonable fees and disbursements of counsel, in connection with the preparation of the Warrant, any waiver or consent hereunder or any amendment or modification hereof (regardless of whether the same becomes effective), or the enforcement of the provisions hereof; provided that the Company shall not be required to pay any expenses of the Warrant Holder arising solely in connection with a transfer of the Warrant.

(c) Successors and Assigns. All the provisions of this Warrant by or for the benefit of the Company or the Warrant Holder shall bind and inure to the benefit of their respective successors and assigns.

(d) Severability. In case any one or more of the provisions contained in this Warrant shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(e) Notices. Any notice or other communication hereunder shall be in writing and shall be sufficient if sent by first-class mail or courier, postage prepaid, and addressed as follows: (a) if to the Company, addressed to the Company at its address for notices as set forth below its signature hereon or any other address as the Company may hereafter notify to the Warrant Holder and (b) if to the Warrant Holder, addressed to such address as the Warrant Holder may hereafter from time to time notify to the Company for the purposes of notice hereunder.

(f) Equitable Remedies. Without limiting the rights of the Company and the Warrant Holder to pursue all other legal and equitable rights available to such party for the other parties' failure to perform its obligations hereunder, the Company and the Warrant Holder each hereto acknowledge and agree that the remedy at law for any failure to perform any obligations hereunder would be inadequate and that each shall be entitled to specific performance, injunctive relief or other equitable remedies in the event of any such failure.

(g) Continued Effect. Rights and benefits conferred on the holders of Warrant Shares pursuant to the provisions hereof (including Section 6) shall continue to inure to the benefit of, and shall be enforceable by, such holders, notwithstanding the surrender of the Warrant to, and its cancellation by, the Company upon the full or partial exercise or repurchase hereof.

(h) Governing Law. THIS WARRANT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, EXCEPT AS OTHERWISE REQUIRED BY MANDATORY PROVISIONS OF LAW.

(i) Section Headings. The section headings used herein are for convenience of reference only and shall not be construed in any way to affect the interpretation of any provisions of this Warrant.

[Signature Page Follows.]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized signatory as of the day and year first above written.

XTANT MEDICAL HOLDINGS, INC.

By /s/ Greg Jensen

Name: Greg Jensen

Title: Vice President, Finance and Chief Financial Officer

Address for Notices:

Xtant Medical Holdings, Inc.

664 Cruiser Lane

Belgrade, Montana 59714

Attention: Greg Jensen

[Signature Page to Warrant]

Exhibit A to Warrant

Form of Notice of Exercise

_____, 20__

To: Xtant Medical Holdings, Inc.

Reference is made to the Warrant dated _____. Terms defined therein are used herein as therein defined.

The undersigned, pursuant to the provisions set forth in the Warrant, hereby irrevocably elects and agrees to purchase _____ Shares, and makes payment herewith in full therefor at the Exercise Price of \$_____ in the following form:
_____.

[If the number of Shares as to which the Warrant is being exercised is less than all of the Shares purchasable thereunder, the undersigned hereby requests that a new Warrant representing the remaining balance of the Shares be registered in the name of _____, whose address is: _____.]

The undersigned hereby represents that it is exercising the Warrant for its own account or the account of an Affiliate for investment purposes and not with the view to any sale or distribution and that the Warrant Holder will not offer, sell or otherwise dispose of the Warrant or any underlying Warrant Shares in violation of applicable securities laws.

[NAME OF WARRANT HOLDER]

By _____
Name:
Title:

[ADDRESS OF WARRANT HOLDER]

Exhibit B to Warrant

Form of Warrant Assignment

Reference is made to the Warrant dated _____, issued by [_____]. Terms defined therein are used herein as therein defined.

FOR VALUE RECEIVED _____ (the "Assignor") hereby sells, assigns and transfers all of the rights of the Assignor as set forth in such Warrant, with respect to the number of Warrant Shares covered thereby as set forth below, to the Assignee(s) as set forth below:

Number of Warrant Shares

Name(s) of Assignee(s)

Address(es)

Number of Warrant Shares

All notices to be given by the Company to the Assignor as Warrant Holder shall be sent to the Assignee(s) at the above listed address(es), and, if the number of Shares being hereby assigned is less than all of the Shares covered by the Warrant held by the Assignor, then also to the Assignor.

In accordance with Section 6 of the Warrant, the Assignor requests that the Company execute and deliver a new Warrant or Warrants in the name or names of the assignee or assignees, as is appropriate, or, if the number of Shares being hereby assigned is less than all of the Shares covered by the Warrant held by the Assignor, new Warrants in the name or names of the assignee or the assignees, as is appropriate, and in the name of the Assignor.

The undersigned represents that the Assignee has represented to the Assignor that the Assignee is acquiring the Warrant for its own account or the account of an Affiliate for investment purposes and not with the view to any sale or distribution, and that the Assignee will not offer, sell or otherwise dispose of the Warrant or the Warrant Shares except under circumstances as will not result in a violation of applicable securities laws.

Dated: _____, 20__

[NAME OF ASSIGNOR]

By _____

Name:

Title:

[ADDRESS OF ASSIGNOR]

APPENDIX A

Black Scholes Option Pricing formula to be used when calculating the value of each new warrant to purchase one share in the Acquirer shall be:

$$C_{Acq} = S_{Acq}e^{-\lambda(T_{Acq}-t_{Acq})}N(d_1) - K_{Acq}e^{-r(T_{Acq}-t_{Acq})}N(d_2), \text{ where}$$

C_{Acq} = value of each warrant to purchase one share in the Acquirer

S_{Acq} = price of Acquirer's stock as determined by reference to the average of the closing prices on the securities exchange or Nasdaq Global Market over the 20-day period ending three trading days prior to the closing of the Corporate Reorganization described in Section 4(d) if the Acquirer's stock is then traded on such exchange or system, or the average of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over the 20-day period ending three trading days prior to the closing of the Corporate Reorganization if the Acquirer's stock is then actively traded in the over-the-counter market, or the then most recently completed financing if the Acquirer's stock is not then traded on a securities exchange or system or in the over-the-counter market.

T_{Acq} = expiration date of new warrants to purchase shares in the Acquirer = T_{Corp}

t_{Acq} = date of issue of new warrants to purchase shares in the Acquirer

$T_{Acq}-t_{Acq}$ = time until warrant expiration, expressed in years

σ = volatility = annualized standard deviation of daily log-returns (using a 262-day annualization factor) of the Acquirer's stock price on the securities exchange or Nasdaq Global Market over a 20-day trading period, determined by the Warrant Holders, that is within the 100-day trading period ending on the trading day immediately after the public announcement of the Corporate Reorganization described in Section 4(d) if the Acquirer's stock is then traded on such exchange or system, or the annualized standard deviation of daily-log returns (using a 262-day annualization factor) of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over a 20-day trading period, determined by the Warrant Holder, that is within the 100-day trading period ending on the trading day immediately after the public announcement of the Corporate Reorganization if the Acquirer's stock is then actively traded in the over-the-counter market, or 0.6 (or 60%) if the Acquirer's stock is not then traded on a securities exchange or system or in the over-the-counter market.

N = cumulative normal distribution function

$$d_1 = (\ln(S_{Acq}/K_{Acq}) + (r-\lambda+\sigma^2/2)(T_{Acq}-t_{Acq})) \div (\sigma\sqrt{(T_{Acq}-t_{Acq})})$$

\ln = natural logarithm

λ = dividend rate of the Acquirer for the most recent 12-month period at the time of closing of the Corporate Reorganization.

K_{Acq} = strike price of new warrants to purchase shares in the Acquirer = $K_{Corp} * (S_{Acq} / S_{Corp})$

r = annual yield, as reported by Bloomberg at time t_{Acq} , of the United States Treasury security measuring the nearest time T_{Acq}

$$d_2 = d_1 - \sigma\sqrt{(T_{Acq}-t_{Acq})}$$

APPENDIX B

Black Scholes Option Pricing formula to be used when calculating the value of each Warrant to purchase one share in the Company shall be:

$$C_{\text{Corp}} = S_{\text{Corp}} e^{-\lambda(T_{\text{Corp}} - t_{\text{Corp}})} N(d_1) - K_{\text{Corp}} e^{-r(T_{\text{Corp}} - t_{\text{Corp}})} N(d_2), \text{ where}$$

C_{Corp} = value of each Warrant to purchase one share in the Company

S_{Corp} = price of Company stock as determined by reference to the average of the closing prices on the securities exchange or Nasdaq Global Market over the 20-day period ending three trading days prior to the closing of the Corporate Reorganization described in Section 4(d) if the Company's stock is then traded on such exchange or system, or the average of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over the 20-day period ending three trading days prior to the closing of the Corporate Reorganization if the Company's stock is then actively traded in the over-the-counter market, or the then most recently completed financing if the Company's stock is not then traded on a securities exchange or system or in the over-the-counter market.

T_{Corp} = expiration date of Warrants to purchase shares in the Company

t_{Corp} = date of public announcement of transaction

$T_{\text{Corp}} - t_{\text{Corp}}$ = time until Warrant expiration, expressed in years

σ = volatility = the annualized standard deviation of daily log-returns (using a 262-day annualization factor) of the Company's stock price on the securities exchange or Nasdaq Global Market over a 20-day trading period, determined by the Warrant Holders, that is within the 100-day trading period ending on the trading day immediately after the public announcement of the Corporate Reorganization described in Section 4(d) if the Company's stock is then traded on such exchange or system, or the annualized standard deviation of daily-log returns (using a 262-day annualization factor) of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over a 20-day trading period, determined by the Warrant Holder, that is within the 100-day trading period ending on the trading day immediately after the public announcement of the Corporate Reorganization if the Company's stock is then actively traded in the over-the-counter market, or 0.6 (or 60%) if the Company's stock is not then traded on a securities exchange or system or in the over-the-counter market.

N = cumulative normal distribution function

$$d_1 = (\ln(S_{\text{Corp}}/K_{\text{Corp}}) + (r - \lambda + \sigma^2/2)(T_{\text{Corp}} - t_{\text{Corp}})) \div (\sigma\sqrt{T_{\text{Corp}} - t_{\text{Corp}}})$$

\ln = natural logarithm

λ = dividend rate of the Company for the most recent 12-month period at the time of closing of the Corporate Reorganization.

K_{Corp} = strike price of warrant

r = annual yield, as reported by Bloomberg at time t_{Corp} , of the United States Treasury security measuring the nearest time T_{Corp}

$$d_2 = d_1 - \sigma\sqrt{T_{\text{Corp}} - t_{\text{Corp}}}$$

THIS WARRANT AND THE SECURITIES PURCHASABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FILED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS, UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

XTANT MEDICAL HOLDINGS, INC.

WARRANT

dated as of May 6, 2020

THIS CERTIFIES THAT, for value received, ORBIMED ROYALTY OPPORTUNITIES II, LP or its successors or permitted assigns (such Person and such successors and assigns each being the "Warrant Holder" with respect to the Warrant held by it), at any time and from time to time on any Business Day on or prior to 5:00 p.m. (New York City time), on the Expiration Date (as herein defined), is entitled (a) to subscribe for the purchase from Xtant Medical Holdings, Inc., a Delaware corporation (the "**Company**"), 868,016 Shares at a price per Share equal to the Exercise Price (as herein defined), and (b) to the other rights set forth herein; provided that the number of Shares issuable upon any exercise of this Warrant and the Exercise Price shall be adjusted and readjusted from time to time in accordance with Section 4. By accepting delivery hereof, the Warrant Holder agrees to be bound by the provisions hereof.

IN FURTHERANCE THEREOF, the Company irrevocably undertakes and agrees for the benefit of the Warrant Holder as follows:

Section 1. Definitions and Construction.

(a) Certain Definitions. As used herein (the following definitions being applicable in both singular and plural forms):

"**Affiliate**" means, with respect to any Person, any other Person that directly or indirectly controls, is controlled by, or is under common control with such Person.

"**Appraised Value**" means at any time the fair market value thereof determined in good faith by the Board of Directors of the Company as of a date which is within ten days of the date as of which the determination is to be made, subject to the rights of the Requisite Holders pursuant to Section 4(m).

"**Business Day**" means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

"**Closing Price**" means, for any trading day with respect to a Share, (a) the last reported sale price on such day on the principal national securities exchange on which the Shares are listed or admitted to trading or, if no such reported sale takes place on any such day, the average of the closing bid and asked prices thereon, as reported in The Wall Street Journal, or (b) if such Shares shall not be listed or admitted to trading on a national securities exchange, the last reported sales price on the NASDAQ National Market System or, if no such reported sale takes place on any such day, the average of the closing bid and asked prices thereon, as reported in The Wall Street Journal, or (c) if such Shares shall not be quoted on such National Market System nor listed or admitted to trading on a national securities exchange, then the average of the closing bid and asked prices, as reported by The Wall Street Journal for the over-the-counter market; provided that if clause (a), (b), or (c) applies and no price is reported in The Wall Street Journal for any trading day, then the price reported in The Wall Street Journal for the most recent prior trading day shall be deemed to be the price reported for such trading day.

“Commission” means the Securities and Exchange Commission or any other Federal agency administering the Securities Act at the time.

“Exchange Act” means the Securities Exchange Act of 1934, or any successor Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

“Exercise Amount” means for any number of Warrant Shares as to which this Warrant is being exercised the product of (i) such number of Warrant Shares times (ii) the Exercise Price.

“Exercise Price” means \$0.01 per Warrant Share, as adjusted from time to time pursuant to Section 4.

“Expiration Date” means May 6, 2030.

“Initial Holder” means OrbiMed Royalty Opportunities II, LP.

“Market Price” on any day means (a) the unweighted average of the daily Closing Prices per Share for the 20 consecutive trading days prior to such date or (b) if clauses (a), (b) and (c) of the definition of “Closing Price” are inapplicable, then the Appraised Value as of such day shall apply.

“Person” means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Requisite Holders” means at any time holders of Warrant Shares and Warrants representing at least a majority of all of the Warrant Shares either outstanding or issuable upon the exercise of all the outstanding Warrants.

“Securities Act” means the Securities Act of 1933, or any successor Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

“Shares” means the Company’s currently authorized common stock, \$0.000001 par value, and stock of any other class or other consideration into which such currently authorized capital stock may hereafter have been changed.

“Warrant” means, as the context requires, this warrant and any successor warrant hereto or warrants issued upon a whole or partial transfer or assignment of any such Share purchase warrant or of any such successor warrant hereto.

“Warrant Shares” means the number of Shares issued or issuable upon exercise of this Warrant as set forth in the introduction hereto, as adjusted from time to time pursuant to Section 4.

(b) Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with generally accepted accounting principles. When used herein, the term “financial statements” shall include the notes and schedules thereto. References to fiscal periods are to fiscal periods of the Company.

(c) Computation of Time Periods. With respect to the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”. Periods of days shall be counted in calendar days unless otherwise stated.

(d) Construction. Unless the context requires otherwise, references to the plural include the singular and to the singular include the plural, references to any gender include any other gender, the part includes the whole, the term “including” is not limiting, and the term “or” has, except where otherwise indicated, the inclusive meaning represented by the phrase “and/or”. The words “hereof”, “herein”, “hereby”, “hereunder” and similar terms in this Warrant refer to this Warrant as a whole and not to any particular provision of this Warrant. Section, subsection, clause, exhibit and schedule references are to this Warrant, unless otherwise specified. Any reference to this Warrant includes any and all permitted alterations, amendments, changes, extensions, modifications, renewals, or supplements hereto or hereof, as applicable.

(e) Exhibits and Schedules. All of the exhibits and schedules attached hereto shall be deemed incorporated herein by reference.

(f) No Presumption Against Any Party. Neither this Warrant nor any uncertainty or ambiguity herein shall be construed or resolved using any presumption against any party hereto, whether under any rule of construction or otherwise. On the contrary, this Warrant has been reviewed by each of the parties and their counsel and, in the case of any ambiguity or uncertainty, shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

Section 2. Exercise of Warrant.

(a) Exercise and Payment. The Warrant Holder may exercise this Warrant in whole or in part, at any time or from time to time on any Business Day, beginning six months after the date on which this Warrant is issued, on or prior to the Expiration Date, by delivering to the Company either the original Warrant or a lost warrant affidavit, a duly executed notice (a **“Notice of Exercise”**) in the form of Exhibit A and by payment to the Company of the Exercise Price per Warrant Share, at the election of the Warrant Holder, either (i) by wire transfer of immediately available funds to the account of the Company in an amount equal to the Exercise Amount, (ii) by receiving from the Company the number of Warrant Shares equal to (A) the number of Warrant Shares as to which this Warrant is being exercised minus (B) the number of Warrant Shares having a value, based on the Closing Price on the trading day immediately prior to the date of such exercise (or if there is no such Closing Price, then based on the Appraised Value as of such day), equal to the Exercise Amount, or (iii) any combination of the foregoing. The Company acknowledges that the provisions of clause (ii) are intended, in part, to ensure that a full or partial exchange of this Warrant pursuant to such clause (ii) will qualify as a conversion, within the meaning of paragraph (d)(3)(ii) of Rule 144 under the Securities Act. At the request of any Warrant Holder, the Company will accept reasonable modifications to the exchange procedures provided for in this Section in order to accomplish such intent. For all purposes of this Warrant (other than this Section 2(a)), any reference herein to the exercise of this Warrant shall be deemed to include a reference to the exchange of this Warrant into Shares in accordance with the terms of clause (ii).

(b) Effectiveness and Delivery. As soon as practicable but not later than five Business Days after the Company shall have received such Notice of Exercise, (provided requisite payment shall have been received prior to such date), the Company shall execute and deliver or cause to be executed and delivered, in accordance with such Notice of Exercise, a certificate or certificates representing the number of Shares specified in such Notice of Exercise, issued in the name of the Warrant Holder or in such other name or names of any Person or Persons designated in such Notice of Exercise. This Warrant shall be deemed to have been exercised and such Share certificate or certificates shall be deemed to have been issued, and the Warrant Holder or other Person or Persons designated in such Notice of Exercise shall be deemed for all purposes to have become a holder of record of Shares, all as of the date that such Notice of Exercise.

(c) Surrender of Warrant. The Warrant Holder shall surrender this Warrant to the Company when it delivers the Notice of Exercise, and in the event of a partial exercise of the Warrant, the Company shall execute and deliver to the Warrant Holder, at the time the Company delivers the Share certificate or certificates issued pursuant to such Notice of Exercise, a new Warrant for the unexercised portion of the Warrant, but in all other respects identical to this Warrant.

(d) Legend. Each certificate for Warrant Shares issued upon exercise of this Warrant, unless at the time of exercise such Warrant Shares are registered under the Securities Act, shall bear the following legend:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FILED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS, UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE.

Any certificate for Warrant Shares issued at any time in exchange or substitution for any certificate bearing such legend (unless at that time such Warrant Shares are registered under the Securities Act) shall also bear such legend unless, in the written opinion of counsel selected by the holder of such certificate (who may be an employee of such holder), which counsel and opinion shall be reasonably acceptable to the Company, the Warrant Shares represented thereby need no longer be subject to restrictions on resale under the Securities Act. If the Warrant is exercised when there is an effective registration statement covering the underlying Warrant Shares, the certificate for the Warrant Shares shall not bear a legend.

(e) No Fractional Shares. No fractional Shares shall be issued by the Company in connection with any exercise of this Warrant. If any fractional Shares would, but for this restriction, be issuable upon an exercise of the Warrant, in lieu of delivering such fractional Shares, the number of Shares to be issued shall be rounded down to the next whole number and the Company shall pay to the Warrant Holder, in cash, an amount equal to the same fraction times the Closing Price on the trading day immediately prior to the date of such exercise (or if there is no such Closing Price, then based on the Appraised Value as of such day).

(f) Expenses and Taxes. Except for taxes payable with respect to any income or revenue realized or recognized by the Warrant Holder or any transferee thereof, the Company shall pay all expenses, taxes and owner charges payable in connection with the preparation, issuance and delivery of certificates for the Warrant Shares and any new Warrants, except that if the certificates for the Warrant Shares or the new Warrants are to be registered in a name or names other than the name of the Warrant Holder, funds sufficient to pay all transfer taxes payable as a result of such transfer shall be paid by the Warrant Holder at the time of its delivery of the Notice of Exercise or promptly upon receipt of a written request by the Company for payment.

Section 3. Validity of Warrant and Issuance of Shares.

(a) The Company represents and warrants that this Warrant has been duly authorized, is validly issued, and constitutes the valid and binding obligation of the Company.

(b) The Company further represents and warrants that on the date hereof it has duly authorized and reserved, and the Company hereby agrees that it will at all times until the Expiration Date have duly authorized and reserved, such number of Shares as will be sufficient to permit the exercise in full of the Warrant, and that all such Shares are and will be duly authorized and, when issued upon exercise of the Warrant, will be validly issued, fully paid and non-assessable, and free and clear of all security interests, claims, liens, equities and other encumbrances.

Section 4. Antidilution Provisions. The Exercise Price in effect at any time, and the number of Warrant Shares that may be purchased upon any exercise of the Warrant, shall be subject to change or adjustment as follows:

(a) Share Reorganization. If the Company shall subdivide its outstanding Shares into a greater number of Shares, by way of a stock split, stock dividend or otherwise, or consolidate its outstanding Shares into a smaller number of Shares (any such event being herein called a “Share Reorganization”), then (i) the Exercise Price shall be adjusted, effective immediately after the effective date of such Share Reorganization, to a price determined by multiplying the Exercise Price in effect immediately prior to such effective date by a fraction, the numerator of which shall be the number of Shares outstanding on such effective date before giving effect to such Share Reorganization and the denominator of which shall be the number of Shares outstanding after giving effect to such Share Reorganization, and (ii) the number of Shares subject to purchase upon exercise of this Warrant shall be adjusted, effective at such time, to a number determined by multiplying the number of Shares subject to purchase immediately before such Share Reorganization by a fraction, the numerator of which shall be the number of Shares outstanding after giving effect to such Share Reorganization and the denominator of which shall be the number of Shares outstanding immediately before giving effect to such Share Reorganization.

(b) [Reserved].

(c) Special Distributions; Above Market Purchases of Securities.

(i) If the Company shall issue or distribute to any holder or holders of Shares evidences of indebtedness, any other securities of the Company or any cash, property or other assets (excluding (i) a Share Reorganization and (ii) a Share Distribution), whether or not accompanied by a purchase, redemption or other acquisition of Shares (any such non-excluded event being herein called a “**Special Distribution**”), then the Warrant Holder shall be entitled to a pro-rata Share of such Special Distribution as though the Warrant Holder had fully exercised this Warrant immediately prior to the record date for such Special Distribution, and the Company shall pay or distribute such pro-rata share to the Warrant Holder when paid or distributed to the holders of the Shares. A reclassification of the Shares (other than a change in par value, or from par value to no par value or from no par value to par value) into shares of any other class of stock shall be deemed to be a distribution by the Company to the holders of its Shares of such class of stock and, if the outstanding Shares shall be changed into a larger or smaller number of Shares as part of such reclassification, a Share Reorganization.

(ii) If, at any time after the date hereof, the Company or any Subsidiary shall repurchase (a “**Repurchase**”), by self-tender offer or otherwise, any securities of the Company at an aggregate repurchase price that exceeds the aggregate Market Price for the securities repurchased determined as of the Business Day immediately prior to the earliest of (i) the date of such Repurchase, (ii) the commencement of an offer to repurchase or (iii) the public announcement of either (such date being referred to as the “**Determination Date**”), then the Exercise Price and the number of Warrant Shares issuable upon exercise of this Warrant shall be adjusted as follows:

The Exercise Price shall be reduced to an amount equal to the product of (A) the Exercise Price in effect immediately prior to such issuance or sale times (B) a fraction, (I) the numerator of which shall be (x) the product of (1) the Market Price for the Shares as of the Determination Date times (2) the number of Shares outstanding immediately following the consummation of the Repurchase less (y) the Repurchase Premium (as defined below), and (II) the denominator of which shall be (x) the product of (1) the Market Price for the Shares as of the Determination Date times (2) the number of Shares outstanding immediately following the consummation of the Repurchase.

The number of Warrant Shares issuable upon exercise of this Warrant shall be increased to the number of Shares determined by multiplying (x) the number of Warrant Shares issuable upon exercise of this Warrant immediately prior to such distribution times (y) a fraction (1) the numerator of which shall be the Exercise Price in effect immediately prior to the adjustment in clause (A) of this Section 4(c)(ii) and (2) the denominator of which shall be the Exercise Price in effect immediately after such adjustment.

The amount by which the aggregate repurchase price for all securities repurchased in any Repurchase (including for such purposes any fees or other direct or indirect consideration payable in connection therewith) exceeds the aggregate Market Price for such securities is referred to as the “**Repurchase Premium**”.

(d) Capital Reorganization. Without limiting any of the other provisions hereof, if any (i) capital reorganization; (ii) reclassification of the capital stock of the Company; (iii) merger, consolidation or reorganization or other similar transaction or series of related transactions which results in the voting securities of the Company outstanding immediately prior thereto representing immediately thereafter (either by remaining outstanding or by being converted into voting securities of the surviving or acquiring entity) less than 50% of the combined voting power of the voting securities of or economic interests in the Company or such surviving or acquiring entity outstanding immediately after such merger, consolidation or reorganization; (iv) sale, lease, license, transfer, conveyance or other disposition of all or substantially all of the assets of the Company; (v) sale of shares of capital stock of the Company, in a single transaction or series of related transactions, representing at least 50% of the voting power of the voting securities of or economic interests in the Company; or (vi) “person” (together with his, her or its Affiliates) or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) acquires, directly or indirectly, the beneficial ownership (as such term is defined in Rule 13d-3 promulgated under the Exchange Act) of outstanding shares of capital stock and/or other equity securities of the Company, in a single transaction or series of related transactions (including, without limitation, one or more tender offers or exchange offers), representing at least 50% of the voting power of or economic interests in the then outstanding shares of capital stock of the corporation shall be effected (each of clauses (i)-(vi) above, a “**Corporate Reorganization**”), then the Company shall use its best efforts to ensure that lawful and adequate provision shall be made whereby each Warrant Holder shall thereafter continue to have the right to purchase and receive upon the terms and conditions herein specified and in lieu of the Warrant Shares issuable upon exercise of the Warrants held by such Warrant Holder, shares of stock in the surviving or acquiring entity (“**Acquirer**”), as the case may be, such that the aggregate value of the Warrant Holder’s warrants to purchase such number of shares, where the value of each new warrant to purchase one share in the Acquirer is determined in accordance with the Black-Scholes Option Pricing formula set forth in Appendix (A) hereto, is equivalent to the aggregate value of the Warrants held by such Warrant Holder, where the value of each Warrant to purchase one share in the Company is determined in accordance with the Black-Scholes Option Pricing formula set forth in Appendix (B) hereto. Furthermore, the new warrants to purchase shares in the Acquirer referred to herein shall have the same expiration date as the Warrants, and shall have a strike price, K_{Acq} , that is calculated in accordance with Appendix (A) hereto. For the avoidance of doubt, if the surviving or acquiring entity, as the case may be, is a member of a consolidated group for financial reporting purposes, the “Acquirer” shall be deemed to be the parent of such consolidated group for purposes of this Section 4(d) and Appendix (A) hereto.

Moreover, appropriate provision shall be made with respect to the rights and interests of each Warrant Holder to the end that the provisions hereof (including, without limitation, provision for adjustment of the Warrant Price) shall thereafter be applicable, as nearly equivalent as may be practicable in relation to any shares of stock thereafter deliverable upon the exercise thereof. The Company shall not effect any such Corporate Reorganization unless prior to or simultaneously with the consummation thereof the successor corporation resulting from such consolidation or merger, or the corporation purchasing or otherwise acquiring such assets or other appropriate corporation or entity shall assume by written instrument, reasonably deemed by the Board of Directors of the Company and the Requisite Holders to be satisfactory in form and substance, the obligation to deliver to the holder of the Warrants, at the last address of such holder appearing on the books of the Company, such shares of stock, as, in accordance with the foregoing provisions, such holder may be entitled to purchase, and the other obligations under these Warrants. The provisions of this Section 4(d) shall similarly apply to successive Corporate Reorganizations. If the Company, in spite of using its best efforts, is unable to cause these Warrants to continue in full force and effect until the Expiration Date in connection with any Corporate Reorganization, then the Company shall pay the Warrant Holders an amount per Warrant to purchase one share in the Company that is calculated in accordance with the Black-Scholes Option Pricing formula set forth in Appendix (B) hereto. Such payment shall be made in cash in the event that the Corporate Reorganization results in the Company or the shareholders of the Company receiving cash from the Acquirer at the closing of the transaction, and shall be made in shares of the Company (with the value of each share in the Company is determined according to S_{Corp} in Appendix (B) hereto) for all other Corporate Reorganizations. In the event that a Corporate Reorganization involves the payment of cash as well as other securities, such payment to the Warrant Holders shall be also be made in both cash and shares in the same proportion as the cash and non-cash portions of the considerations.

(e) Adjustment Rules.

(i) Any adjustments pursuant to this Section 4 shall be made successively whenever any event referred to herein shall occur, except that, notwithstanding any other provision of this Section 4, no adjustment shall be made to the number of Warrant Shares to be delivered to the Warrant Holder (or to the Exercise Price) if such adjustment represents less than 1% of the number of Warrant Shares previously required to be so delivered, but any lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which together with any adjustments so carried forward shall amount to 1% or more of the number of Warrant Shares to be so delivered.

(ii) No adjustments shall be made pursuant to this Section 4 in respect of the issuance of Warrant Shares upon exercise of the Warrant.

(iii) If the Company shall take a record of the holders of its Shares for any purpose referred to in this Section 4, then (x) such record date shall be deemed to be the date of the issuance, sale, distribution or grant in question and (y) if the Company shall legally abandon such action prior to effecting such action, no adjustment shall be made pursuant to this Section 4 in respect of such action.

(iv) In computing adjustments under this Section 4, (A) fractional interests in Shares shall be taken into account to the nearest one-thousandth of a Share, and (B) calculations of the Exercise Price shall be carried to the nearest one-thousandth of one cent.

(f) Proceedings Prior to Any Action Requiring Adjustment. As a condition precedent to the taking of any action which would require an adjustment pursuant to this Section 4, the Company shall take any action which may be necessary, including obtaining regulatory approvals or exemptions, in order that the Company may thereafter validly and legally issue as fully paid and nonassessable all Shares which the Warrant Holder is entitled to receive upon exercise of the Warrant.

(g) Notice of Adjustment. Not less than 20 days prior to the record date or effective date, as the case may be, of any action which requires or might require an adjustment or readjustment pursuant to this Section 4, the Company shall give notice to the Warrant Holder of such event, describing such event in reasonable detail and specifying the record date or effective date, as the case may be, and, if determinable, the required adjustment and computation thereof. If the required adjustment is not determinable at the time of such notice, the Company shall give notice to the Warrant Holder of such adjustment and computation as soon as reasonably practicable after such adjustment becomes determinable. In connection with any such adjustment or readjustment, at its sole cost and expense, the Company will also cause independent certified public accountants of recognized national standing (which may be the regular auditors of the Company) selected by the Company to verify its computations and, in connection with the preparation of the Company's quarterly financial statements prepare a report setting forth such adjustment or readjustment and showing in reasonable detail the method of calculation thereof and the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or to be received by the Company for any Share Distribution issued or sold or deemed to have been issued, (ii) the number of Shares outstanding or deemed to be outstanding, and (iii) the Exercise Price in effect immediately prior to such issue or sale and as adjusted and readjusted (if required by this Section 4) on account thereof. The Company will forthwith mail a copy of each such report to the Warrant Holder and will, upon the written request at any time of the Warrant Holder, furnish to such holder a like report setting forth the Exercise Price at the time in effect and showing in reasonable detail how it was calculated. The Company will also keep copies of all such reports at its office and will cause the same to be available for inspection at such office during normal business hours by the Warrant Holder or any prospective purchaser of this Warrant designated by the Warrant Holder.

(h) Subsequent Warrants. Irrespective of any adjustments in the Exercise Price or the number of Warrant Shares issuable upon exercise of this Warrant, any successor or replacement warrants issued theretofore or thereafter may continue to express the same Exercise Price per Share and number and kind of Warrant Shares as are stated in this Warrant.

(i) Disputes. Any dispute which arises between the Warrant Holder and the Company with respect to the calculation of the adjusted Exercise Price or Warrant Shares issuable upon exercise shall be determined by the independent auditors of the Company, and such determination shall be binding upon the Company and the holders of the Warrants and the Warrant Shares if made in good faith and without manifest error.

(j) Other Actions Affecting Shares.

(i) Equitable Equivalent. In case any event shall occur as to which the provisions of this Section 4 set forth above hereof are not strictly applicable but the failure to make any adjustment would not, in the opinion of the Warrant Holder, fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles of this Section 4, then, in each such case, at the request of the Warrant Holder, the Company shall appoint, at the Company's expense, a firm of independent investment bankers of recognized national standing (which shall be completely independent of the Company and shall be satisfactory to the holder or the Requisite Holders), which shall give their opinion upon the adjustment, if any, on a basis consistent with the essential intent and principles established in this Section 4, necessary to preserve, in a manner so as to reduce dilution, the purchase rights represented by this Warrant. Upon receipt of such opinion, the Company will promptly mail a copy thereof to the holder of this Warrant and shall make the adjustments described therein.

(ii) No Avoidance. The Company shall not, by amendment of its certificate of incorporation or by-laws or through any consolidation, merger, reorganization, transfer of assets, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against unlimited dilution or other impairment as if the holder was a shareholder of the Company entitled to the benefit of fiduciary duties afforded to shareholders under Delaware law.

(k) Calculation of Consideration Received. The consideration for the issue or sale of any Share Distribution shall, irrespective of the accounting treatment of such consideration:

(i) insofar as it consists of cash, be computed at the amount of cash actually received by the Company without reduction for any expenses paid or incurred by the Company or any commissions or compensations paid or concessions or discounts allowed to underwriters, dealers or others performing similar services in connection with such issue or sale;

(ii) insofar as it consists of property (including securities) other than cash actually received by the Company, be computed at the Appraised Value thereof at the time of such issue or sale; and

(iii) insofar as it consists neither of cash nor of other property, be computed as having no value.

(l) Adjustment of Par Value. If for any reason (including the operation of the adjustment provisions set forth in this Warrant), the Exercise Price on any date of exercise of this Warrant shall not be lawful and adequate consideration for the issuance of the relevant Warrant Shares, then the Company shall take such steps as are necessary (including the amendment of its certificate of incorporation so as to reduce the par value of the Shares) to cause such Exercise Price to be adequate and lawful consideration on the date the payment thereof is due, but if the Company shall fail to take such steps, then the Company acknowledges that the Warrant Holder shall have been damaged by the Company in an amount equal to an amount, which, when added to the total Exercise Price for the relevant Warrant Shares, would equal lawful and adequate consideration for the issuance of such Warrant Shares, and the Company irrevocably agrees that if the Warrant Holder shall then forgive the right to recover such damages from the Company, such forgiveness shall constitute, and the Company shall accept such forgiveness as, additional lawful consideration for the issuance of the relevant Warrant Shares.

(m) Appraisal.

(i) If the Requisite Holders shall, for any reason whatsoever, disagree with the Company's determination of the Appraised Value of a Share, then such holders shall by notice to the Company (an "**Appraisal Notice**") given within 60 days after the Company notifies the holders of such determination, elect to dispute such determination, and such dispute shall be resolved as set forth in clause (ii) of this Section 4(m).

(ii) The Company shall within 10 days after an Appraisal Notice shall have been given, engage an independent investment bank of national repute (the “**Appraiser**”) selected by the Requisite Holders and retained pursuant to an engagement letter between the Company and the Appraiser with respect to such valuation in form and substance reasonably acceptable to the Requisite Holders, to make an independent determination of the Appraised Value of a Share; such value shall be determined without deduction for (a) liquidity considerations, (b) minority shareholder status, or (c) any liquidation or other preference or any right of redemption in favor of any other equity securities of the Company. The costs of engagement of such investment bank for any such determination of Appraised Value shall be paid by the Company.

Section 5. [Reserved].

Section 6. Transfer of Warrant. The Warrant Holder upon transfer of the Warrant must deliver to the Company a duly executed Warrant Assignment in the form of Exhibit B and upon surrender of this Warrant to the Company, the Company shall execute and deliver a new Warrant with appropriate changes to reflect such Assignment, in the name or names of the assignee or assignees specified in the Warrant Assignment or other instrument of assignment and, if the Warrant Holder’s entire interest is not being transferred or assigned, in the name of the Warrant Holder, and upon the Company’s execution and delivery of such new Warrant, this Warrant shall promptly be cancelled; and provided that any assignee shall have all of the rights of the Initial Holder hereunder. The Warrant Holder shall pay any transfer tax imposed in connection with such assignment (if any). Any transfer or exchange of this Warrant shall be without charge to the Warrant Holder (except as provided above with respect to transfer taxes, if any) and any new Warrant issued shall be dated the date hereof.

Section 7. Assistance in Disposition of Warrant or Warrant Shares. Notwithstanding any other provision herein, in the event that it becomes unlawful for the Warrant Holder to continue to hold the Warrant, in whole or in part, or some or all of the Shares held by it, or restrictions are imposed on the Warrant Holder by any statute, regulation or governmental authority which, in the judgment of the Warrant Holder, make it unduly burdensome to continue to hold the Warrant or such Shares, the Warrant Holder may sell or otherwise dispose of the Warrant (subject to the restrictions on transfer provided in Section 6) or its Shares, and the Company agrees to provide reasonable assistance to the Warrant Holder in disposing of the Warrant and such Shares in a prompt and orderly manner and, at the request of the Warrant Holder, to provide (and authorize the Warrant Holder to provide) financial and other information concerning the Company to any prospective purchaser of the Warrant or Shares owned by the Warrant Holder.

Section 8. Identity of Transfer Agent. The Transfer Agent for the Common Stock is Corporate Stock Transfer, Inc. with a mailing address of 3200 Cherry Creek Drive South #430, Denver, CO 80209. Upon the appointment of any subsequent transfer agent for the Shares, the Company will mail to the Warrant Holder a statement setting forth the name and address of such transfer agent.

Section 9. Covenants. The Company agrees that:

(a) [Reserved].

(b) [Reserved].

(c) [Reserved].

(d) Securities Filings; Rules 144 & 144A. The Company will (i) timely file any reports required to be filed by it under the Securities Act, the Exchange Act or the rules and regulations adopted by the Commission thereunder, (ii) use its best efforts to cooperate with the Warrant Holder and each holder of Warrant Shares in supplying such information concerning the Company as may be necessary for the Warrant Holder or holder of Warrant Shares to complete and file any information reporting forms currently or hereafter required by the Commission as a condition to the availability of an exemption from the Securities Act for the sale of any Warrants or Warrant Shares, and (iii) take such further action as the Warrant Holder may reasonably request to the extent required from time to time to enable the Warrant Holder to sell Warrant Shares without restriction and without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 or 144A under the Securities Act, as such Rules may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission; provided that this subsection (d) shall not require the Company to make any filing under the Securities Act or Exchange Act which the Company is not otherwise obligated to make; and provided, further, that this subsection (d) shall not require the Company to make any cash payment to the Warrant Holder.

(e) Obtaining of Governmental Approvals and Stock Exchange Listings. The Company will, at its own expense, (i) obtain and keep effective any and all permits, consents and approvals of governmental agencies and authorities which may from time to time be required of the Company in order to satisfy its obligations hereunder, and (ii) take all action which may be necessary so that the Warrant Shares, immediately upon their issuance upon the exercise of the Warrants, will be listed on each securities exchange, if any, on which the Shares are then listed.

(f) [Reserved].

(g) Structural Dilution. So long as this Warrant remains outstanding, the Company shall not permit any of its Subsidiaries to issue, sell, distribute or otherwise grant in any manner (including by assumption) any rights to subscribe for or to purchase, or any warrants or options for the purchase of any equity securities of such Subsidiary or any securities convertible into or exchangeable for such equity securities (or any rights to subscribe for or to purchase, or any warrants or options for the purchase of any such convertible or exchangeable securities), whether or not immediately exercisable or exercisable prior to the Expiration Date or thereafter.

(h) Notices Of Corporate Action. In the event of:

(i) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any distribution, or any right to subscribe for, purchase or otherwise acquire any Shares or any other securities or property, or to receive any other right, or

(ii) any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any consolidation or merger involving the Company and any other Person or any transfer of all or substantially all the assets of the Company to any other Person, or any Corporate Reorganization, or

(iii) any voluntary or involuntary dissolution, liquidation or winding-up of the Company, or

(iv) any issuance of any Shares, Convertible Security or Option by the Company,

the Company will mail to the Warrant Holder a notice specifying (i) the date or expected date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right, (ii) the date or expected date on which any such reorganization, reclassification, recapitalization, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, (iii) the time, if any such time is to be fixed, as of which the holders of record of Shares (or other securities under Section 4(d)) shall be entitled to exchange their Shares (or other securities under Section 4(d)) for the securities or other property deliverable upon such reorganization, reclassification, recapitalization, consolidation, merger, transfer, dissolution, liquidation or winding-up and a description in reasonable detail of the transaction and (iv) the date of such issuance, together with a description of the security so issued and the consideration received by the Company therefor. Such notice shall be mailed at least 20 days prior to the date therein specified.

Section 10. Lost, Mutilated or Missing Warrants. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant, and, in the case of loss, theft or destruction, upon receipt of indemnification satisfactory to the Company (in the case of the Initial Holder its unsecured, unbonded agreement of indemnity or affidavit of loss shall be sufficient) or, in the case of mutilation, upon surrender and cancellation of the mutilated Warrant, the Company shall execute and deliver a new Warrant of like tenor and representing the right to purchase the same aggregate number of Warrant Shares.

Section 11. Waivers; Amendments. Any provision of this Warrant may be amended or waived with (but only with) the written consent of the Company and the Requisite Holders; provided that no such amendment or waiver shall, without the written consent of the Company and the Warrant Holder, (a) change the number of Warrant Shares issuable upon exercise of the Warrant or the Exercise Price, (b) shorten the Expiration Date, or (c) amend, modify or waive the provisions of this Section 11 or the definition of “Requisite Holders”. Any amendment or waiver effected in compliance with this Section 11 shall be binding upon the Company and the Warrant Holder. The Company shall give prompt notice to the Warrant Holder of any amendment or waiver effected in compliance with this Section 11. No failure or delay of the Company or the Warrant Holder in exercising any power or right hereunder shall operate as a waiver hereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No notice or demand on the Company in any case shall entitle the Company to any other or future notice or demand in similar or other circumstances. The rights and remedies of the Company and the Warrant Holder hereunder are cumulative and not exclusive of any rights or remedies which it would otherwise have.

Section 12. Miscellaneous.

(a) Shareholder Rights. The Warrant shall not entitle any Warrant Holder, prior to the exercise of the Warrant, to any voting or other rights as a shareholder of the Company.

(b) Expenses. The Company shall pay all reasonable expenses of the Warrant Holder, including reasonable fees and disbursements of counsel, in connection with the preparation of the Warrant, any waiver or consent hereunder or any amendment or modification hereof (regardless of whether the same becomes effective), or the enforcement of the provisions hereof; provided that the Company shall not be required to pay any expenses of the Warrant Holder arising solely in connection with a transfer of the Warrant.

(c) Successors and Assigns. All the provisions of this Warrant by or for the benefit of the Company or the Warrant Holder shall bind and inure to the benefit of their respective successors and assigns.

(d) Severability. In case any one or more of the provisions contained in this Warrant shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(e) Notices. Any notice or other communication hereunder shall be in writing and shall be sufficient if sent by first-class mail or courier, postage prepaid, and addressed as follows: (a) if to the Company, addressed to the Company at its address for notices as set forth below its signature hereon or any other address as the Company may hereafter notify to the Warrant Holder and (b) if to the Warrant Holder, addressed to such address as the Warrant Holder may hereafter from time to time notify to the Company for the purposes of notice hereunder.

(f) Equitable Remedies. Without limiting the rights of the Company and the Warrant Holder to pursue all other legal and equitable rights available to such party for the other parties' failure to perform its obligations hereunder, the Company and the Warrant Holder each hereto acknowledge and agree that the remedy at law for any failure to perform any obligations hereunder would be inadequate and that each shall be entitled to specific performance, injunctive relief or other equitable remedies in the event of any such failure.

(g) Continued Effect. Rights and benefits conferred on the holders of Warrant Shares pursuant to the provisions hereof (including Section 6) shall continue to inure to the benefit of, and shall be enforceable by, such holders, notwithstanding the surrender of the Warrant to, and its cancellation by, the Company upon the full or partial exercise or repurchase hereof.

(h) Governing Law. THIS WARRANT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, EXCEPT AS OTHERWISE REQUIRED BY MANDATORY PROVISIONS OF LAW.

(i) Section Headings. The section headings used herein are for convenience of reference only and shall not be construed in any way to affect the interpretation of any provisions of this Warrant.

[Signature Page Follows.]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized signatory as of the day and year first above written.

XTANT MEDICAL HOLDINGS, INC.

By /s/ Greg Jensen

Name: Greg Jensen

Title: Vice President, Finance and Chief Financial Officer

Address for Notices:

Xtant Medical Holdings, Inc.

664 Cruiser Lane

Belgrade, Montana 59714

Attention: Greg Jensen

[Signature Page to Warrant]

Exhibit A to Warrant

Form of Notice of Exercise

_____, 20__

To: Xtant Medical Holdings, Inc.

Reference is made to the Warrant dated _____. Terms defined therein are used herein as therein defined.

The undersigned, pursuant to the provisions set forth in the Warrant, hereby irrevocably elects and agrees to purchase _____ Shares, and makes payment herewith in full therefor at the Exercise Price of \$_____ in the following form:
_____.

[If the number of Shares as to which the Warrant is being exercised is less than all of the Shares purchasable thereunder, the undersigned hereby requests that a new Warrant representing the remaining balance of the Shares be registered in the name of _____, whose address is: _____.]

The undersigned hereby represents that it is exercising the Warrant for its own account or the account of an Affiliate for investment purposes and not with the view to any sale or distribution and that the Warrant Holder will not offer, sell or otherwise dispose of the Warrant or any underlying Warrant Shares in violation of applicable securities laws.

[NAME OF WARRANT HOLDER]

By _____
Name:
Title:

[ADDRESS OF WARRANT HOLDER]

Exhibit B to Warrant

Form of Warrant Assignment

Reference is made to the Warrant dated _____, issued by [_____]. Terms defined therein are used herein as therein defined.

FOR VALUE RECEIVED _____ (the "Assignor") hereby sells, assigns and transfers all of the rights of the Assignor as set forth in such Warrant, with respect to the number of Warrant Shares covered thereby as set forth below, to the Assignee(s) as set forth below:

Number of Warrant Shares

<u>Name(s) of Assignee(s)</u>	<u>Address(es)</u>	<u>Number of Warrant Shares</u>
-------------------------------	--------------------	---------------------------------

All notices to be given by the Company to the Assignor as Warrant Holder shall be sent to the Assignee(s) at the above listed address(es), and, if the number of Shares being hereby assigned is less than all of the Shares covered by the Warrant held by the Assignor, then also to the Assignor.

In accordance with Section 6 of the Warrant, the Assignor requests that the Company execute and deliver a new Warrant or Warrants in the name or names of the assignee or assignees, as is appropriate, or, if the number of Shares being hereby assigned is less than all of the Shares covered by the Warrant held by the Assignor, new Warrants in the name or names of the assignee or the assignees, as is appropriate, and in the name of the Assignor.

The undersigned represents that the Assignee has represented to the Assignor that the Assignee is acquiring the Warrant for its own account or the account of an Affiliate for investment purposes and not with the view to any sale or distribution, and that the Assignee will not offer, sell or otherwise dispose of the Warrant or the Warrant Shares except under circumstances as will not result in a violation of applicable securities laws.

Dated: _____, 20__

[NAME OF ASSIGNOR]

By _____
Name:
Title:

[ADDRESS OF ASSIGNOR]

APPENDIX A

Black Scholes Option Pricing formula to be used when calculating the value of each new warrant to purchase one share in the Acquirer shall be:

$$C_{Acq} = S_{Acq}e^{-\lambda(T_{Acq}-t_{Acq})}N(d_1) - K_{Acq}e^{-r(T_{Acq}-t_{Acq})}N(d_2), \text{ where}$$

C_{Acq} = value of each warrant to purchase one share in the Acquirer

S_{Acq} = price of Acquirer's stock as determined by reference to the average of the closing prices on the securities exchange or Nasdaq Global Market over the 20-day period ending three trading days prior to the closing of the Corporate Reorganization described in Section 4(d) if the Acquirer's stock is then traded on such exchange or system, or the average of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over the 20-day period ending three trading days prior to the closing of the Corporate Reorganization if the Acquirer's stock is then actively traded in the over-the-counter market, or the then most recently completed financing if the Acquirer's stock is not then traded on a securities exchange or system or in the over-the-counter market.

T_{Acq} = expiration date of new warrants to purchase shares in the Acquirer = T_{Corp}

t_{Acq} = date of issue of new warrants to purchase shares in the Acquirer

$T_{Acq}-t_{Acq}$ = time until warrant expiration, expressed in years

σ = volatility = annualized standard deviation of daily log-returns (using a 262-day annualization factor) of the Acquirer's stock price on the securities exchange or Nasdaq Global Market over a 20-day trading period, determined by the Warrant Holders, that is within the 100-day trading period ending on the trading day immediately after the public announcement of the Corporate Reorganization described in Section 4(d) if the Acquirer's stock is then traded on such exchange or system, or the annualized standard deviation of daily-log returns (using a 262-day annualization factor) of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over a 20-day trading period, determined by the Warrant Holder, that is within the 100-day trading period ending on the trading day immediately after the public announcement of the Corporate Reorganization if the Acquirer's stock is then actively traded in the over-the-counter market, or 0.6 (or 60%) if the Acquirer's stock is not then traded on a securities exchange or system or in the over-the-counter market.

N = cumulative normal distribution function

$$d_1 = (\ln(S_{Acq}/K_{Acq}) + (r-\lambda+\sigma^2/2)(T_{Acq}-t_{Acq})) \div (\sigma\sqrt{(T_{Acq}-t_{Acq})})$$

\ln = natural logarithm

λ = dividend rate of the Acquirer for the most recent 12-month period at the time of closing of the Corporate Reorganization.

K_{Acq} = strike price of new warrants to purchase shares in the Acquirer = $K_{Corp} * (S_{Acq} / S_{Corp})$

r = annual yield, as reported by Bloomberg at time t_{Acq} , of the United States Treasury security measuring the nearest time T_{Acq}

$$d_2 = d_1 - \sigma\sqrt{(T_{Acq}-t_{Acq})}$$

APPENDIX B

Black Scholes Option Pricing formula to be used when calculating the value of each Warrant to purchase one share in the Company shall be:

$$C_{\text{Corp}} = S_{\text{Corp}} e^{-\lambda(T_{\text{Corp}}-t_{\text{Corp}})} N(d_1) - K_{\text{Corp}} e^{-r(T_{\text{Corp}}-t_{\text{Corp}})} N(d_2), \text{ where}$$

C_{Corp} = value of each Warrant to purchase one share in the Company

S_{Corp} = price of Company stock as determined by reference to the average of the closing prices on the securities exchange or Nasdaq Global Market over the 20-day period ending three trading days prior to the closing of the Corporate Reorganization described in Section 4(d) if the Company's stock is then traded on such exchange or system, or the average of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over the 20-day period ending three trading days prior to the closing of the Corporate Reorganization if the Company's stock is then actively traded in the over-the-counter market, or the then most recently completed financing if the Company's stock is not then traded on a securities exchange or system or in the over-the-counter market.

T_{Corp} = expiration date of Warrants to purchase shares in the Company

t_{Corp} = date of public announcement of transaction

$T_{\text{Corp}}-t_{\text{Corp}}$ = time until Warrant expiration, expressed in years

σ = volatility = the annualized standard deviation of daily log-returns (using a 262-day annualization factor) of the Company's stock price on the securities exchange or Nasdaq Global Market over a 20-day trading period, determined by the Warrant Holders, that is within the 100-day trading period ending on the trading day immediately after the public announcement of the Corporate Reorganization described in Section 4(d) if the Company's stock is then traded on such exchange or system, or the annualized standard deviation of daily-log returns (using a 262-day annualization factor) of the closing bid or sale prices (whichever is applicable) in the over-the-counter market over a 20-day trading period, determined by the Warrant Holder, that is within the 100-day trading period ending on the trading day immediately after the public announcement of the Corporate Reorganization if the Company's stock is then actively traded in the over-the-counter market, or 0.6 (or 60%) if the Company's stock is not then traded on a securities exchange or system or in the over-the-counter market.

N = cumulative normal distribution function

$$d_1 = (\ln(S_{\text{Corp}}/K_{\text{Corp}}) + (r-\lambda+\sigma^2/2)(T_{\text{Corp}}-t_{\text{Corp}})) \div (\sigma\sqrt{T_{\text{Corp}}-t_{\text{Corp}}})$$

\ln = natural logarithm

λ = dividend rate of the Company for the most recent 12-month period at the time of closing of the Corporate Reorganization.

K_{Corp} = strike price of warrant

r = annual yield, as reported by Bloomberg at time t_{Corp} , of the United States Treasury security measuring the nearest time T_{Corp}

$$d_2 = d_1 - \sigma\sqrt{T_{\text{Corp}}-t_{\text{Corp}}}$$

FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This **FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT** (this "Amendment") is made and entered into as of April 1, 2020 (the "Amendment Closing Date") by and among **BACTERIN INTERNATIONAL, INC.**, a Nevada corporation ("Bacterin"), **X-SPINE SYSTEMS, INC.**, an Ohio corporation ("X-Spine" or the "Additional Delayed Draw Borrower" and, together with Bacterin, the "Borrower"), **ROS ACQUISITION OFFSHORE LP**, a Cayman Islands Exempted Limited Partnership (together with its Affiliates, successors, transferees and assignees, "ROS" and in its capacity as administrative agent, the "Administrative Agent"), **ORBIMED ROYALTY OPPORTUNITIES II, LP**, a Delaware limited partnership (together with its Affiliates, successors, transferees and assignees, "Royalty Opportunities" and together with ROS, each individually a "Lender" and collectively, the "Lenders"), and, in their respective capacities as Guarantors under the Credit Agreement (as defined below), **XTANT MEDICAL HOLDINGS, INC.**, a Delaware corporation ("Holdings"), and **XTANT MEDICAL, INC.**, a Delaware corporation ("Xtant" and, along with Holdings and each Subsidiary thereof, collectively, the "Guarantors").

WHEREAS, the Borrower, Holdings, Xtant, the Administrative Agent and the Lenders are party to that certain Second Amended and Restated Credit Agreement, dated as of March 29, 2019 (the "Credit Agreement"), pursuant to which (i) the Lenders have extended credit to the Borrower on the terms set forth therein and (ii) each Lender has appointed ROS as the administrative agent for the Lenders;

WHEREAS, effective as of March 24, 2020, Ron Berlin resigned from his position with Holdings and the Borrower and contemporaneously therewith Holdings and the Borrower designated Sean Browne as his replacement and the Administrative Agent approved such replacement, in each case pursuant to and in accordance with Section 9.1.12 of the Credit Agreement (the "Key Person Change");

WHEREAS, the Borrower and the Administrative Agent wish to confirm that no Default or Event of Default occurred under Section 9.1.12 of the Credit Agreement in respect of the Key Person Change;

WHEREAS, pursuant to Section 11.1 of the Credit Agreement, the Credit Agreement may be amended by an instrument in writing signed by the Borrower and the Administrative Agent (acting on behalf of the Lenders); and

WHEREAS, the Borrower and the Lenders desire to amend certain provisions of the Credit Agreement, in each case, as provided in this Amendment.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Definitions; Loan Document**. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Credit Agreement. This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement and the other Loan Documents.

2. **Confirmation of Approval of Key Person Change.** Holdings and the Borrower hereby confirm that effective as of March 24, 2020 (a) Ron Berlin resigned from his position with Holdings and the Borrower and (b) contemporaneously therewith, with immediate effect, Sean Browne was designated as the replacement to Ron Berlin. The Administrative Agent hereby confirms that contemporaneously with the resignation of Ron Berlin and designation of Sean Browne as a replacement, it approved, effective as of March 24, 2020, such replacement pursuant to and in accordance with Section 9.1.12 of the Credit Agreement, and that no Default or Event of Default occurred under Section 9.1.12 of the Credit Agreement as a result of the Key Person Change.

3. **Amendment to Section 1.1.** Section 1.1 of the Credit Agreement is hereby amended by amending and restating the following definition in its entirety:

“Maturity Date” means December 31, 2021.

4. **Amendments to Section 3.4.** Section 3.4 of the Credit Agreement is hereby amended and restated in its entirety as follows:

“SECTION 3.4 Interest Rate.

(a) From and after the Existing Credit Agreement Restatement Date until June 30, 2016:

(i) interest payable in cash by the Borrower shall accrue on the Loans during such period at a rate per annum equal to 9.00%;

(ii) additional interest (“PIK Interest”) shall accrue on the Loans during such period at a rate per annum equal to the difference of (A) the sum of (1) the Applicable Margin plus (2) the higher of (x) the LIBO Rate for such Interest Period and (y) 1.00% minus (B) 9.00%, and such PIK Interest shall be added to the outstanding principal amount of the Loans on the last day of each Fiscal Quarter until July 1, 2016; and

(iii) notwithstanding anything in this Section 3.4(a) to the contrary, from and after the Existing Credit Agreement Restatement Date until March 31, 2016, the Borrower may elect, in its sole discretion and in lieu of interest payments pursuant to Section 3.4(a)(i) and Section 3.4(a)(ii) during such period, by delivering written notice to the Administrative Agent prior to the date on which the first cash interest payment would be payable pursuant to Section 3.4(a)(i) and Section 3.6(c), to have all or any portion (as the Borrower shall so elect) of interest on the Loans accrue on the Loans during such period at a rate per annum equal to the sum of (1) the Applicable Margin plus (2) the higher of (x) the LIBO Rate for such Interest Period and (y) 1.00% (“Optional PIK Interest”), and such Optional PIK Interest shall be added to the outstanding principal amount of the Loans on the last day of each Fiscal Quarter until March 31, 2016.

(b) From and after July 1, 2016 until February 13, 2018, PIK Interest shall accrue on the Loans during such period at a rate per annum equal to the difference of the sum of (1) the Applicable Margin plus (2) the higher of (x) the LIBO Rate for such Interest Period and (y) 1.00%, and such PIK Interest shall be added to the outstanding principal amount of the Loans on the last day of each Fiscal Quarter until December 31, 2017 and on February 14, 2018;

(c) From and after February 14, 2018 until March 31, 2018:

(i) interest payable in cash by the Borrower shall accrue on the Loans during such period at a rate per annum equal to the sum of (1) 10.00% plus (2) the LIBO Rate for such Interest Period; and

(ii) notwithstanding anything in this Section 3.4(c) to the contrary, from and after February 14, 2018 until March 31, 2018, the Borrower may elect, in its sole discretion and in lieu of interest payments pursuant to Section 3.4(c)(i) during such period, by delivering written notice to the Administrative Agent prior to the date on which the first cash interest payment would be payable pursuant to Section 3.4(c)(i) and Section 3.6(c), to have all or any portion (as the Borrower shall so elect) of interest on the Loans accrue on the Loans during such period as Optional PIK Interest at a rate per annum equal to the sum of (1) 12.00% plus (2) the LIBO Rate for such Interest Period, and such Optional PIK Interest shall be added to the outstanding principal amount of the Loans on the last day of the Fiscal Quarter ended March 31, 2018.

(d) From and after April 1, 2018 until June 30, 2018, no interest shall accrue on the Loans during such period.

(e) From and after June 30, 2018 until December 31, 2018, no interest shall accrue on the Loans during such period.

(f) From and after January 1, 2019 until September 30, 2020, no interest shall accrue on the Loans during such period.

(g) From and after October 1, 2020 until the Maturity Date, interest payable in cash by the Borrower shall accrue on the Loans during such period at a rate per annum equal to the sum of (1) 10.00% plus (2) the higher of (x) the LIBO Rate for such Interest Period and (y) 2.3125%.

(h) The interest rate shall be calculated and, if necessary, adjusted for each Interest Period, in each case pursuant to the terms hereof.

(i) All references hereunder to the principal amount of the Loans shall include any PIK Interest or Optional PIK Interest, if any, so added to the principal.

(j) Notwithstanding anything in this Section 3.4 to the contrary, the Borrower may, in its sole discretion, and in lieu of PIK Interest and/or Optional PIK Interest payments pursuant to Sections 3.4(a), (b) or (c), by delivering written notice to the Administrative Agent prior to the date on which any such payment-in-kind interest payment would have been payable pursuant to Section 3.4(a), (b) or (c) and Section 3.6(c), elect to pay such aggregate principal amount of PIK Interest and/or Optional PIK Interest in cash instead of making payment-in-kind, in which case the Borrower shall be required to make such PIK Interest and/or Optional PIK Interest payment in cash at the time such payment-in-kind interest would have been payable pursuant to Section 3.4(a), (b) or (c) and Section 3.6(c)."

5. **Amendment to Section 8.4(b)**. Section 8.4(b) of the Credit Agreement is hereby amended and restated in its entirety as follows:

“(b) **Minimum Revenue Base**. The Revenue Base for the periods set forth below shall not be less than the amounts set forth opposite such periods for the periods set forth below:

Testing Period	Minimum Revenue Base
Two Fiscal Quarters ended June 30, 2019	\$ 30,000,000
Three Fiscal Quarters ended September 30, 2019	\$ 45,000,000
Four Fiscal Quarters ended December 31, 2019	\$ 60,000,000
Four Fiscal Quarters ended March 31, 2020	\$ 45,000,000
Four Fiscal Quarters ended June 30, 2020	\$ 45,000,000
Four Fiscal Quarters ended September 30, 2020	\$ 30,000,000
Four Fiscal Quarters ended December 31, 2020	\$ 25,000,000
Four Fiscal Quarters ended March 31, 2021	\$ 30,000,000
Four Fiscal Quarters ended June 30, 2021	\$ 35,000,000
Four Fiscal Quarters ended September 30, 2021	\$ 40,000,000
Four Fiscal Quarters ended December 31, 2021	\$ 45,000,000

”

6. **Amendment to Section 9.1.12**. Section 9.1.12 of the Credit Amendment is hereby amended by deleting “Ron Berlin” from such Section 9.1.12 and inserting “Sean Browne” in replacement thereof.

7. **Conditions to Effectiveness of Amendment**. This Amendment shall become effective upon (a) receipt by the Borrower, the Administrative Agent, the Lenders and the Guarantors of a counterpart signature of the others to this Amendment duly executed and delivered by the Borrower, the Lenders, the Administrative Agent and the Guarantors and (b) the issuance by Holdings, on the Amendment Closing Date, of (i) to ROS, a warrant to purchase 1,531,984 shares of common stock of Holdings and (ii) to Royalty Opportunities, a warrant to purchase 868,016 shares of common stock of Holdings, in each case, with an exercise price of \$0.01 per share and an expiration date of May 6, 2030.

8. **Expenses**. The Borrower agrees to pay on demand all expenses of the Administrative Agent (including, without limitation, the fees and out-of-pocket expenses of Covington & Burling LLP, counsel to the Administrative Agent) incurred in connection with the Administrative Agent’s review, consideration and evaluation of this Amendment, including the rights and remedies available to it in connection therewith, and the negotiation, preparation, execution and delivery of this Amendment.

9. **Representations and Warranties.** The Borrower and the Guarantors represent and warrant to each Lender as follows:

(a) After giving effect to this Amendment, the representations and warranties of the Borrower and the Guarantors contained in the Credit Agreement or any other Loan Document shall, (i) with respect to representations and warranties that contain a materiality qualification, be true and correct in all respects on and as of the date hereof, and (ii) with respect to representations and warranties that do not contain a materiality qualification, be true and correct in all material respects on and as of the date hereof, and except that the representations and warranties limited by their terms to a specific date shall be true and correct as of such date.

(b) Before and after giving effect to this Amendment, no Default or Event of Default under the Credit Agreement has occurred or will occur or be continuing.

10. **No Implied Amendment or Waiver.** Except as expressly set forth in this Amendment, this Amendment shall not, by implication or otherwise, limit, impair, constitute a waiver of or otherwise affect any rights or remedies of the Administrative Agent or the Lenders under the Credit Agreement or the other Loan Documents, or alter, modify, amend or in any way affect any of the terms, obligations or covenants contained in the Credit Agreement or the other Loan Documents, all of which shall continue in full force and effect. Nothing in this Amendment shall be construed to imply any willingness on the part of the Administrative Agent or the Lenders to agree to or grant any similar or future amendment, consent or waiver of any of the terms and conditions of the Credit Agreement or the other Loan Documents.

11. **Waiver and Release.** TO INDUCE THE ADMINISTRATIVE AGENT, ACTING ON BEHALF OF THE LENDERS, TO AGREE TO THE TERMS OF THIS AMENDMENT, THE BORROWER, THE GUARANTORS AND THEIR AFFILIATES (COLLECTIVELY, THE "**RELEASING PARTIES**") REPRESENT AND WARRANT THAT AS OF THE DATE HEREOF THERE ARE NO CLAIMS OR OFFSETS AGAINST OR RIGHTS OF RECOUPMENT WITH RESPECT TO OR DEFENSES OR COUNTERCLAIMS TO THEIR OBLIGATIONS UNDER THE LOAN DOCUMENTS AND IN ACCORDANCE THEREWITH THEY:

(a) WAIVE ANY AND ALL SUCH CLAIMS, OFFSETS, RIGHTS OF RECOUPMENT, DEFENSES OR COUNTERCLAIMS, WHETHER KNOWN OR UNKNOWN, ARISING PRIOR TO THE DATE HEREOF; AND

(b) FOREVER RELEASE, RELIEVE, AND DISCHARGE THE ADMINISTRATIVE AGENT, THE LENDERS, THEIR OFFICERS, DIRECTORS, SHAREHOLDERS, MEMBERS, PARTNERS, PREDECESSORS, SUCCESSORS, ASSIGNS, ATTORNEYS, ACCOUNTANTS, AGENTS, EMPLOYEES, AND REPRESENTATIVES (COLLECTIVELY, THE "**RELEASED PARTIES**"), AND EACH OF THEM, FROM ANY AND ALL CLAIMS, LIABILITIES, DEMANDS, CAUSES OF ACTION, DEBTS, OBLIGATIONS, PROMISES, ACTS, AGREEMENTS, AND DAMAGES, OF WHATEVER KIND OR NATURE, WHETHER KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, CONTINGENT OR FIXED, LIQUIDATED OR UNLIQUIDATED, MATURED OR UNMATURED, WHETHER AT LAW OR IN EQUITY, WHICH THE RELEASING PARTIES EVER HAD, NOW HAVE, OR MAY, SHALL, OR CAN HEREAFTER HAVE, DIRECTLY OR INDIRECTLY ARISING OUT OF OR IN ANY WAY BASED UPON, CONNECTED WITH, OR RELATED TO MATTERS, THINGS, ACTS, CONDUCT, AND/OR OMISSIONS AT ANY TIME FROM THE BEGINNING OF THE WORLD THROUGH AND INCLUDING THE DATE HEREOF, INCLUDING WITHOUT LIMITATION ANY AND ALL CLAIMS AGAINST THE RELEASED PARTIES ARISING UNDER OR RELATED TO THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY.

(c) IN CONNECTION WITH THE RELEASE CONTAINED HEREIN, THE RELEASING PARTIES ACKNOWLEDGE THAT THEY ARE AWARE THAT THEY MAY HEREAFTER DISCOVER CLAIMS PRESENTLY UNKNOWN OR UNSUSPECTED, OR FACTS IN ADDITION TO OR DIFFERENT FROM THOSE WHICH THEY KNOW OR BELIEVE TO BE TRUE, WITH RESPECT TO THE MATTERS RELEASED HEREIN. NEVERTHELESS, IT IS THE INTENTION OF THE RELEASING PARTIES, THROUGH THIS AMENDMENT AND WITH ADVICE OF COUNSEL, FULLY, FINALLY, AND FOREVER TO RELEASE ALL SUCH MATTERS, AND ALL CLAIMS RELATED THERETO, WHICH DO NOW EXIST, OR HERETOFORE HAVE EXISTED. IN FURTHERANCE OF SUCH INTENTION, THE RELEASES HEREIN GIVEN SHALL BE AND REMAIN IN EFFECT AS A FULL AND COMPLETE RELEASE OR WITHDRAWAL OF SUCH MATTERS NOTWITHSTANDING THE DISCOVERY OR EXISTENCE OF ANY SUCH ADDITIONAL OR DIFFERENT CLAIMS OR FACTS RELATED THERETO.

(d) THE RELEASING PARTIES COVENANT AND AGREE NOT TO BRING ANY CLAIM, ACTION, SUIT, OR PROCEEDING AGAINST THE RELEASED PARTIES, DIRECTLY OR INDIRECTLY, REGARDING OR RELATED IN ANY MANNER TO THE MATTERS RELEASED HEREBY, AND FURTHER COVENANT AND AGREE THAT THIS AMENDMENT IS A BAR TO ANY SUCH CLAIM, ACTION, SUIT, OR PROCEEDING.

(e) THE RELEASING PARTIES REPRESENT AND WARRANT TO THE RELEASED PARTIES THAT THEY HAVE NOT HERETOFORE ASSIGNED OR TRANSFERRED, OR PURPORTED TO ASSIGN OR TRANSFER, TO ANY PERSON OR ENTITY ANY CLAIMS OR OTHER MATTERS HEREIN RELEASED.

(f) THE RELEASING PARTIES ACKNOWLEDGE THAT THEY HAVE HAD THE BENEFIT OF INDEPENDENT LEGAL ADVICE WITH RESPECT TO THE ADVISABILITY OF ENTERING INTO THIS RELEASE AND HEREBY KNOWINGLY, AND UPON SUCH ADVICE OF COUNSEL, WAIVE ANY AND ALL APPLICABLE RIGHTS AND BENEFITS UNDER, AND PROTECTIONS OF, CALIFORNIA CIVIL CODE SECTION 1542, AND ANY AND ALL STATUTES AND DOCTRINES OF SIMILAR EFFECT. CALIFORNIA CIVIL CODE SECTION 1542 PROVIDES AS FOLLOWS:

A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release, and that if known by him or her, would have materially affected his or her settlement with the debtor or released party.

12. **Counterparts; Governing Law.** This Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of such shall together constitute but one and the same agreement. Delivery of an executed counterpart of a signature page of this Amendment by fax transmission or other electronic mail transmission (e.g., "pdf", "tiff" or similar format) shall be effective as delivery of a manually executed counterpart of this Amendment. THIS AMENDMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized.

BACTERIN INTERNATIONAL, INC.,
as the Borrower

By: /s/ Sean E. Browne
Name: Sean E. Browne
Title: Chief Executive Officer

XTANT MEDICAL HOLDINGS, INC.,
as a Guarantor

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

X-SPINE SYSTEMS, INC.,
as a Guarantor and the Additional Delayed Draw Borrower

By: /s/ Sean E. Browne
Name: Sean E. Browne
Title: Chief Executive Officer

XTANT MEDICAL, INC.,
as a Guarantor

By: /s/ Sean E. Browne
Name: Sean E. Browne
Title: Chief Executive Officer

Signature Page to First Amendment to Second A&R Credit Agreement

ROS ACQUISITION OFFSHORE LP,
as the Administrative Agent and as a Lender

By OrbiMed Advisors LLC, solely in its
capacity as Investment Manager

By: /s/ W. Carter Neild

Name: W. Carter Neild

Title: Member

ORBIMED ROYALTY OPPORTUNITIES II, LP,
as a Lender

By: OrbiMed ROF II LLC,
its General Partner

By: OrbiMed Advisors LLC,
its Managing Member

By: /s/ W. Carter Neild

Name: W. Carter Neild

Title: Member

Signature Page to First Amendment to Second A&R Credit Agreement

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

I, Sean E. Browne, certify that:

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

Date: May 7, 2020

By: /s/ Sean E. Browne

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

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

I, Greg Jensen, certify that:

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

Date: May 7, 2020

By: */s/ Greg Jensen*

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

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

In connection with the Quarterly Report of Xtant Medical Holdings, Inc. (the "Company"), on Form 10-Q for the period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean E. Browne, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

May 7, 2020

/s/ Sean E. Browne

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

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

In connection with the Quarterly Report of Xtant Medical Holdings, Inc. (the "Company"), on Form 10-Q for the period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Greg Jensen, Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

May 7, 2020

/s/ Greg Jensen

Greg Jensen

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