UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2023

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

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

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 ☐	Accelerated filer ☐
Non-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, par value $0.000001 per share, of registrant outstanding at July 28, 2023: 128,897,048.

XTANT MEDICAL HOLDINGS, INC.
FORM 10-Q
June 30, 2023

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This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. For more information, see "Cautionary Statement Regarding Forward-Looking Statements."

As used in this report, unless the context indicates another meaning, the terms "we," "us," "our," "Xtant," "Xtant Medical," and the "Company" mean Xtant Medical Holdings, Inc. and its wholly owned subsidiaries, Xtant Medical, Inc., Bacterin International, Inc., X-spine Systems, Inc., and Surgalign SPV, Inc., all of which are consolidated on Xtant's condensed consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation.

We own various unregistered trademarks and service marks, including our corporate logo. Solely for convenience, the trademarks and trade names in this report are referred to without the ® and ™ symbols, but such references should not be construed as any indicator that the owner of such trademarks and trade names will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend the use or display of other companies' trademarks and trade names to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

We include our website address throughout this report for reference only. The information contained on or connected to our website is not incorporated by reference into this report.

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 Private Securities Litigation Reform Act of 1995. 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," "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 topics below and are subject to risks and uncertainties including without limitation those described below:

- our pending acquisition of certain assets and liabilities of Surgalign Holdings, Inc. and risks associated therewith, including without limitation potential delays in completing the transaction and the risk that the transaction may not be completed at all, the failure to achieve anticipated revenue and any cost or revenue synergies expected from the transaction or delays in the realization thereof, delays and challenges in integrating the businesses after the transaction is completed, disruption of our existing business during the pendency of and following the transaction, the loss of key personnel, and unanticipated liabilities or exposures for which we will not been indemnified or may not recover;

- our ability to integrate the products acquired as part of the acquisition of Surgalign SPV, Inc. and the pending acquisition of certain assets and liabilities of Surgalign Holdings, Inc. and achieve future sales of those products as anticipated;

- the effect of inflation and supply chain disruptions, which could result in delayed product launches, lost revenue, higher costs, decreased profit margins, and other adverse effects on our business and operating results;

- the effect of a global economic slowdown, rising interest rates and the prospects for recession, as well as recent and potential future disruptions in access to bank deposits or lending commitments due to bank failures, which could materially and adversely affect our revenue, liquidity, financial condition and results of operations;

- the effect of labor and staffing shortages at hospitals and other medical facilities on the number of elective procedures in which our products are used and as a result our revenues, as well as global and local labor shortages and loss of personnel, which have adversely affected and may continue to adversely affect our ability to produce product to meet demand;

- our ability to service our debt and comply with the covenants in our credit agreements;

- our ability to maintain sufficient liquidity to fund our operations and obtain financing on reasonable terms when needed;

- the effect of COVID-19 and current and future variants on our business, operating results and financial condition, including our revenues primarily as a result of the reduction in procedures in which our products are used and the disruption to our customers, distributors, independent sales representatives, contract manufacturers and suppliers, as well as the global economy, supply chain and financial and credit markets;

- our ability to increase or maintain revenue or return to pre-COVID-19 revenue levels within an acceptable time period or at all and possible future impairment charges to long-lived assets and goodwill and write-downs of excess inventory if unsuccessful;

- the ability of our sales personnel, including our independent sales agents and distributors, to achieve expected results;

- our ability to innovate, develop, introduce and market new products and technologies;

- our ability to remain competitive;

- our reliance on third party suppliers and manufacturers;

- our ability to attract, retain and engage qualified technical, sales and processing personnel and members of our management team, especially in light of a tight labor market and increasing cost of living in and around the Belgrade, Montana area;

- our dependence on and ability to retain and recruit independent sales agents and distributors and motivate and incentivize them to sell our products, including in particular our dependence on key independent agents for a significant portion of our revenue;

- our ability to retain and expand our agreements with group purchasing organizations ("GPOs") and independent delivery networks ("IDNs") and sell products to members of such GPOs and IDNs;

- our ability and success in implementing key growth and process improvement initiatives designed to increase our production capacity, revenue and scale and risks associated with such growth and process improvement initiatives;

- the effect of our private label and original equipment manufacturer ("OEM") business on our business and operating results and risks associated therewith, including fluctuations in our operating results and decreased profit margins;

- risks associated with and the effect of a shift in procedures using our products from hospitals to ambulatory surgical centers, which would put pressure on the price of our products and margins;

- our ability to obtain and maintain government and third-party coverage and reimbursement for our products;

- our ability to obtain and maintain regulatory approvals in the United States and abroad and the effect of government regulations and our compliance with government regulations;

- our ability to successfully complete and integrate future business combinations or acquisitions and risks associated therewith;

- the effect of product liability claims and other litigation to which we may be subjected and product recalls and defects;

- our ability to remain accredited with the American Association of Tissue Banks and continue to obtain a sufficient number of donor cadavers for our products;

- our ability to obtain and protect our intellectual property and proprietary rights and operate without infringing the intellectual property rights of others;

- our expectations regarding operating trends, future financial performance and expense management and our estimates of our future revenue, expenses, ongoing losses, gross margins, operating leverage, capital requirements and our need for, or ability to obtain, additional financing and the availability of our credit facilities; 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, 2022 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)

	As of June 30, 2023 (Unaudited)	As of December 31, 2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,138	$ 20,298
Restricted cash	310	209
Trade accounts receivable, net of allowance for credit losses and doubtful accounts of $740 and $515, respectively	13,744	10,853
Inventories	20,364	17,285
Prepaid and other current assets	1,015	673
Total current assets	39,571	49,318
Property and equipment, net	6,875	5,785
Right-of-use asset, net	1,155	1,380
Goodwill	6,514	3,205
Intangible assets, net	10,920	344
Other assets	183	197
Total Assets	$ 65,218	$ 60,229
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 4,444	$ 3,490
Accrued liabilities	6,255	5,496
Current portion of lease liability	488	458
Current portion of finance lease obligations	63	62
Line of credit	5,031	3,379
Current portion of long-term debt	708	2,333
Total current liabilities	16,989	15,218
Long-term Liabilities:		
Lease liability, less current portion	720	972
Finance lease obligation, less current portion	149	181
Long-term debt, plus premium and less issuance costs	16,401	9,687
Total Liabilities	34,259	26,058
Commitments and Contingencies (note 13)		
Stockholders' Equity:		
Preferred stock, $0.000001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.000001 par value; 300,000,000 shares authorized; 108,897,048 shares issued and outstanding as of June 30, 2023 and 108,874,803 shares issued and outstanding as of December 31, 2022	—	—
Additional paid-in capital	278,897	277,841
Accumulated deficit	(247,938)	(243,670)
Total Stockholders' Equity	30,959	34,171
Total Liabilities & Stockholders' Equity	$ 65,218	$ 60,229

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenue				
Orthopedic product sales	$ 20,232	$ 15,277	$ 38,175	$ 28,227
Other revenue	—	—	1	9
Total Revenue	20,232	15,277	38,176	28,236
Cost of sales	7,773	6,903	15,180	12,302
Gross Profit	12,459	8,374	22,995	15,934
Operating Expenses				
General and administrative	4,954	3,797	9,839	7,766
Sales and marketing	8,716	5,636	15,770	10,845
Research and development	180	241	354	454
Total Operating Expenses	13,850	9,674	25,963	19,065
Loss from Operations	(1,391)	(1,300)	(2,967)	(3,131)
Other Expense				
Interest expense	(786)	(397)	(1,360)	(757)
Interest income	—	—	85	—
Total Other Expense	(786)	(397)	(1,275)	(757)
Net Loss from Operations Before Provision for Income Taxes	(2,177)	(1,697)	(4,242)	(3,888)
Provision for Income Taxes Current and Deferred	(13)	(13)	(26)	(35)
Net Loss	$ (2,190)	$ (1,710)	$ (4,268)	$ (3,923)
Net Loss Per Share:				
Basic	$ (0.02)	$ (0.02)	$ (0.04)	$ (0.04)
Dilutive	$ (0.02)	$ (0.02)	$ (0.04)	$ (0.04)
Shares used in the computation:				
Basic	108,897,048	87,313,701	108,895,327	87,252,521
Dilutive	108,897,048	87,313,701	108,895,327	87,252,521

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In-	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at December 31, 2022	108,874,803	$ —	$ 277,841	$ (243,670)	$ 34,171
Common stock issued on vesting of restricted stock units	22,245	—	—	—	—
Stock-based compensation	—	—	617	—	617
Net loss	—	—	—	(2,078)	(2,078)
Balance at March 31, 2023	108,897,048	—	278,458	(245,748)	32,710
Stock-based compensation	—	—	439	—	439
Net loss	—	—	—	(2,190)	(2,190)
Balance at June 30, 2023	108,897,048	$ —	$ 278,897	$ (247,938)	$ 30,959

	Common Stock		Additional Paid-In-	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at December 31, 2021	87,068,980	$ —	$ 266,068	$ (235,185)	$ 30,883
Common stock issued on vesting of restricted stock units	244,721	—	—	—	—
Stock-based compensation	—	—	613	—	613
Net loss	—	—	—	(2,213)	(2,213)
Balance at March 31, 2022	87,313,701	—	266,681	(237,398)	29,283
Stock-based compensation	—	—	571	—	571
Net loss	—	—	—	(1,710)	(1,710)
Balance at June 30, 2022	87,313,701	$ —	$ 267,252	$ (239,108)	$ 28,144

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2023	**2022**
Operating activities:		
Net loss	$ (4,268)	$ (3,923)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,274	599
Gain on disposal of fixed assets	(21)	(84)
Non-cash interest	189	116
Non-cash rent	3	(1)
Stock-based compensation	1,056	1,184
Provision for reserve on accounts receivable	225	143
Provision for excess and obsolete inventory	243	825
Changes in operating assets and liabilities, net of the effects of the acquisition:		
Accounts receivable	(3,116)	(1,589)
Inventories	(1,733)	659
Prepaid and other assets	(330)	465
Accounts payable	954	428
Accrued liabilities	758	189
Net cash used in operating activities	(4,766)	(989)
Investing activities:		
Purchases of property and equipment and intangible assets	(870)	(810)
Proceeds from sale of fixed assets	55	165
Acquisition of Surgalign SPV, Inc.	(17,000)	—
Net cash used in investing activities	(17,815)	(645)
Financing activities:		
Payments on financing leases	(30)	(22)
Borrowings on line of credit	36,256	26,567
Repayments on line of credit	(34,603)	(26,451)
Net proceeds from issuance of long-term debt, net of issuance costs	4,899	—
Net cash provided by financing activities	6,522	94
Net change in cash and cash equivalents and restricted cash	(16,059)	(1,540)
Cash and cash equivalents and restricted cash at beginning of period	20,507	18,387
Cash and cash equivalents and restricted cash at end of period	$ 4,448	$ 16,847
Reconciliation of cash and cash equivalents and restricted cash reported in the condensed consolidated balance sheets		
Cash and cash equivalents	$ 4,138	$ 16,495
Restricted cash	310	352
Total cash and restricted cash reported in condensed consolidated balance sheets	$ 4,448	$ 16,847

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, Surgalign SPV, Inc., a Delaware corporation, and X-spine Systems, Inc. ("X-spine"), an Ohio corporation (Xtant, Xtant Medical, Bacterin, Surgalign SPV, Inc. 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, 2022, 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, 2023.

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, 2022. 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.

Use of Estimates

The preparation of the condensed 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 condensed 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, intangible assets and liabilities; valuation allowances for trade receivables, inventory, deferred income tax assets and liabilities; current and long-term lease obligations and corresponding right-of-use asset; estimates for the fair value of assets acquired as part of business combinations; 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.

Restricted Cash

Cash and cash equivalents classified as restricted cash on our condensed consolidated balance sheets are restricted as to withdrawal or use under the terms of certain contractual agreements. The June 30, 2023 and December 31, 2022 balances included lockbox deposits that are temporarily restricted due to timing at the period end. The lockbox deposits are applied against our line of credit the next business day.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentration of credit risk consist primarily of cash, cash equivalents and restricted cash. The Company maintains its cash balances primarily with two financial institutions. These balances generally exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in cash and cash equivalents.

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. No impairments of long-lived assets were recorded for the three and six months ended June 30, 2023 and 2022.

Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have indefinite useful lives are not amortized. Instead, they are tested for impairment at least annually, and whenever events or circumstances indicate, the carrying amount of the asset may not be recoverable. No impairments of goodwill were recorded for the three and six months ended June 30, 2023 and 2022.

Net Loss Per Share

Basic net loss per share is computed by dividing net 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 loss per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive shares of common stock outstanding during the period, which include the assumed exercise of stock options and warrants using the treasury stock method. Diluted net loss per share was the same as basic net loss per share for the three and six months ended June 30, 2023 and 2022, 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. Our diluted earnings per share is the same as basic earnings per share, as the effects of including 18,885,572 and 12,474,376 outstanding stock options, restricted stock units and warrants for the three and six months ended June 30, 2023 and 2022, respectively, are anti-dilutive.

Fair Value of Financial Instruments

The carrying values of financial instruments, including trade accounts receivable, accounts payable, accrued liabilities, and long-term debt, approximate their fair values based on terms and related interest rates as of June 30, 2023 and December 31, 2022.

(2) Acquisition of Coflex and CoFix Product Lines

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

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

In conjunction with the Equity Purchase Agreement, on February 28, 2023, we entered into a Transition Services Agreement with Surgalign SVP and Seller, whereby Seller agreed to provide, or cause to be provided, to us on and after the effective date of the Equity Purchase Agreement, after giving effect to the Closing, certain transitional services related to the transition of the Coflex Business.

We funded the Purchase Price with cash on hand and approximately $5.0 million of indebtedness incurred under our term loan, refer to Note 10 – Debt for additional information.

We recorded the purchase of this acquisition using the acquisition method of accounting and, accordingly, recognized the assets acquired at their fair values as of the date of acquisition. The valuation of the acquired assets was refined during the three months ended June 30, 2023 resulting in adjustments to our allocation of the purchase price for additional inventory of $0.5 million and additional intangible assets of $0.5 million from our previous valuation. The table below represents the preliminary allocation of the total consideration for Surgalign SPV's assets and liabilities based on management's preliminary estimates of their respective fair values as of February 28, 2023 (in thousands):

Inventories	$	1,589
Equipment		947
Intangible assets		11,155
Net assets acquired		13,691
Goodwill		3,309
Total purchase consideration	$	17,000

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

The acquisition strengthened the Company's spine portfolio with the addition of the Coflex Business. Coflex is a differentiated and minimally invasive motion preserving stabilization implant that is FDA PMA-approved for the treatment of moderate to severe lumbar spinal stenosis in conjunction with decompression. This potential benefit resulted in the Company paying a premium for the acquisition resulting in the recognition of $3.3 million in goodwill. For tax purposes, none of the goodwill is deductible.

The following unaudited pro forma combined financial information summarizes the results of operations for the periods indicated as if the acquisition had been completed as of January 1, 2022 (in thousands):

	Six Months Ended June 30,	
	2023	2022
Revenues	$ 40,000	$ 31,828
Net loss	(3,745)	(2,543)

Pro forma information reflects adjustments that are expected to have a continuing impact on our results of operations and are directly attributable to the acquisition. The unaudited pro forma results include adjustments to reflect the amortization of the inventory step-up and the incremental intangible asset amortization to be incurred based on the preliminary values of each identifiable intangible asset. The pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of January 1, 2022 or that may be obtained in the future, and do not reflect future synergies, integration costs, or other such costs or savings.

(3) Asset Purchase Agreement

As previously disclosed, on June 18, 2023, we entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Surgalign Holdings, Inc. ("Surgalign Holdings"), pursuant to which, subject to the terms and conditions set forth in the Asset Purchase Agreement, we agreed to acquire certain assets of Surgalign Holdings and its subsidiaries on an as-is, where-is basis, including specified inventory, intellectual property and intellectual property rights, contracts, records and all outstanding equity securities of its international subsidiaries, and intangibles related to the business of designing, developing and manufacturing hardware medical technology and distributing biologics medical technology, as conducted by Surgalign Holdings and its subsidiaries (collectively, the "Assets"), and assume certain specified liabilities of Surgalign Holdings and its subsidiaries (collectively, the "Liabilities" and such acquisition of the Assets and assumption of the Liabilities together, the "Transaction") for a total purchase price of $5 million in cash. We delivered 10% of the purchase price to an escrow agent, which may be returned to us in the event of specified trigger events, including termination of the Asset Purchase Agreement, subject to certain exceptions relating to a breach of the Asset Purchase Agreement by us.

Surgalign Holdings, together with certain of its subsidiaries, is a debtor in a voluntary Chapter 11 case before the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"), which commenced on June 19, 2023, and therefore, the Transaction is being conducted through a Bankruptcy Court-supervised process and is subject to approval of the sale by the Bankruptcy Court and the satisfaction of certain conditions. Following Bankruptcy Court approval, we were designated as the initial bidder in connection with a sale of the Assets under Section 363 of the Bankruptcy Code. On July 28, 2023, the Seller filed a Notice of Successful Bidder announcing the Company as the successful bidder in an auction conducted under Bankruptcy-court approved bidding procedures. Pursuant to the terms of the Asset Purchase Agreement, and pending the issuance of a Sale Order by the Bankruptcy Court, closing of the Transaction is expected to occur after the Bankruptcy Court sale hearing, scheduled for August 8, 2023, but in no event later than September 1, 2023.

(4) 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. Revenue is recognized upon utilization of product. 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 when control of the promised goods is transferred to the customer, in an amount that reflects the consideration the Company expects 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 and six months ended June 30, 2023 and 2022 (in thousands):

	Three Months Ended June 30, 2023	Percentage of Total Revenue	Three Months Ended June 30, 2022	Percentage of Total Revenue
Orthobiologics	$ 14,315	71%	$ 12,402	81%
Spinal implant	5,917	29%	2,875	19%
Other revenue	—	0%	—	0%
Total revenue	$ 20,232	100%	$ 15,277	100%

	Six Months Ended June 30, 2023	Percentage of Total Revenue	Six Months Ended June 30, 2022	Percentage of Total Revenue
Orthobiologics	$ 27,866	73%	$ 22,568	80%
Spinal implant	10,309	27%	5,659	20%
Other revenue	1	0%	9	0%
Total revenue	$ 38,176	100%	$ 28,236	100%

(5) Receivables

The Company's provision for current expected credit loss 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 and six months ended June 30, 2023 and 2022 (in thousands):

	June 30, 2023	June 30, 2022
Balance at January 1	$ 515	$ 552
Provision for expected credit losses	106	191
Write-offs charged against allowance	—	(173)
Balance at March 31	621	570
Provision for expected credit losses	119	(49)
Write-offs charged against allowance	—	(11)
Balance at June 30	$ 740	$ 510

(6) Inventories

Inventories consist of the following (in thousands):

	June 30, 2023	December 31, 2022
Raw materials	$ 6,359	$ 5,628
Work in process	1,406	798
Finished goods	12,599	10,859
Total	$ 20,364	$ 17,285

(7) Property and Equipment, Net

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

	June 30, 2023	December 31, 2022
Equipment	$ 5,597	$ 5,598
Computer equipment	1,158	1,043
Computer software	230	230
Leasehold improvements	4,105	4,105
Surgical instruments	12,209	11,266
Assets not yet in service	2,079	1,507
Total cost	25,378	23,749
Less: accumulated depreciation	(18,503)	(17,964)
Property and equipment, net	$ 6,875	$ 5,785

Depreciation expense related to property and equipment, including property under finance leases, for the three months ended June 30, 2023 and 2022 was $0.4 million and $0.3 million, respectively, and $0.7 million and $0.6 million for the six months ended June 30, 2023 and 2022, respectively.

(8) Intangible Assets

The following table sets forth information regarding intangible assets based on the preliminary purchase accounting discussed in Note 2 – Acquisition of Coflex and CoFix Product Lines (in thousands):

	June 30, 2023	December 31, 2022
Patents	$ 2,617	$ 807
Customer relationships	8,100	—
Trade names	1,245	—
Total cost	11,962	807
Less: accumulated amortization	(1,042)	(463)
Intangible assets, net	$ 10,920	$ 344

(9) Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2023	December 31, 2022
Cash compensation/commissions payable	$ 5,455	$ 4,464
Other accrued liabilities	800	1,032
Accrued liabilities	$ 6,255	$ 5,496

(10) Debt

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

	June 30, 2023	December 31, 2022
Amounts due under the term loan	$ 17,000	$ 12,000
Accrued end-of-term payments	337	216
Less: unamortized debt issuance costs	(228)	(196)
Less: current maturities	(708)	(2,333)
Long-term debt, less issuance costs	$ 16,401	$ 9,687

On February 28, 2023, the Company's term loan agreement was amended to provide an additional $5.0 million of funding. Additionally, the Company's term loan agreement and revolving credit facility were amended on February 28, 2023 to (i) re-set the date certain fees payable in connection with optional prepayments are determined to the date the amendment was executed and consequently extend such fees' original expiration and (ii) increase the minimum amount of interest payable under the term loan and the revolving credit facility from 1% to 2.5%.

In May 2023, the Company extended its interest only period on the term loan until June 2024 when the Company is required to make monthly principal payments of approximately $0.7 million on the term loan through the May 2026.

The effective rate of the term loan, inclusive of amortization of debt issuance costs and accretion of the final payment, was 13.79% as of June 30, 2023. The effective rate of the revolving credit agreement was 9.77% as of June 30, 2023. As of June 30, 2023, the Company had $3.0 million available under the revolving credit agreement.

(11) 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 for the six months ended June 30, 2023 and 2022:

	2023			2022		
	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)
Outstanding at January 1	3,360,664	$ 1.51		3,201,666	$ 1.80	
Granted	130,000	0.74		109,164	0.65	
Cancelled or expired	(75,460)	$ 18.61		(443,125)	$ 2.39	
Outstanding at June 30	3,415,204	$ 1.49	7.7	2,867,705	$ 1.66	8.4
Exercisable at June 30	1,438,894	$ 1.93	7.3	599,063	$ 2.71	7.8

As of June 30, 2023, there was approximately $1.5 million of total unrecognized compensation expense related to unvested stock options. These costs are expected to be recognized over a weighted-average period of 2.0 years. The weighted average grant date fair value of options granted during the three months ended June 30, 2023 was $0.61.

Restricted stock unit activity for awards granted under the 2018 Plan was as follows for the six months ended June 30, 2023 and 2022:

	2023		2022	
	Shares	Weighted Average Fair Value at Grant Date Per Share	Shares	Weighted Average Fair Value at Grant Date Per Share
Outstanding at January 1	3,612,433	$ 0.88	2,970,104	$ 1.39
Granted	186,831	$ 0.71	88,983	$ 0.65
Vested	(22,245)	$ 0.65	(244,721)	$ 1.45
Cancelled	(494,121)	$ 0.54	(318,807)	$ 1.32
Outstanding at June 30	3,282,898	$ 0.92	2,495,559	$ 1.36

Total compensation expense related to unvested restricted stock units not yet recognized was $2.0 million as of June 30, 2023, which is expected to be allocated to expenses over a weighted-average period of 2.0 years.

On July 26, 2023, our stockholders approved and adopted the Xtant Medical Holdings, Inc. 2023 Equity Incentive Plan (the "2023 Plan"), which replaced the 2018 Plan with respect to future grants of equity awards, although the 2018 Plan continues to govern equity awards granted under the 2018 Plan. The 2023 Plan permits the Board of Directors, or a committee thereof, to grant to eligible employees, non-employee directors, and consultants of the Company non-statutory and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, deferred stock units, performance awards, non-employee director awards, and other stock-based awards. The Board of Directors may select 2023 Plan participants and determine the nature and amount of awards to be granted. The maximum number of shares of our common stock available for issuance under the 2023 Plan, subject to adjustment pursuant to the terms of the 2023 Plan, is (i) 5,500,000 shares of common stock; (ii) 7,695,812 shares of common stock remaining available for issuance under the 2018 Plan but not subject to outstanding awards under the 2018 Plan as of July 26, 2023; and (iii) up to 6,686,090 shares of common stock subject to awards outstanding under the 2018 Plan as of July 26, 2023 but only to the extent such awards are subsequently forfeited, cancelled, expire, or otherwise terminate without the issuance of such shares of common stock after such date.

(12) Warrants

As of June 30, 2023 and December 31, 2022, there were outstanding and exercisable warrants to purchase 12,187,470 shares of our common stock at a weighted average exercise price of $1.53 per share with a weighted average remaining contractual term of 3.3 years.

(13) Commitments and Contingencies

Operating Leases

We lease three office facilities as of June 30, 2023 in Belgrade, Montana under non-cancelable operating lease agreements with expiration dates in 2025. We have the option to extend certain leases for additional five or ten-year term(s), and we have the right of first refusal on any sale. As of June 30, 2023, the weighted-average remaining lease term was 2.3 years.

Future minimum payments for the next five years and thereafter as of June 30, 2023 under these long-term operating leases are as follows (in thousands):

Remainder of 2023	$	271
2024		559
2025		470
Total future minimum lease payments		1,300
Less amount representing interest		(92)
Present value of obligations under operating leases		1,208
Less current portion		(488)
Long-term operating lease obligations	$	720

Rent expense was $0.1 million for the three months ended June 30, 2023 and 2022 and $0.3 million for the six months ended June 30, 2023 and 2022. We have no contingent rent agreements.

Litigation

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. While we do not believe that the ultimate resolution of any claims and lawsuits will have a material adverse effect upon our consolidated financial position, results of operations or cash flows, it is possible that the amount of ultimate loss may exceed our current accruals and that our 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.

Indemnification Arrangements

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.

(14) 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 and six months ended June 30, 2023 and 2022.

(15) Supplemental Disclosure of Cash Flow Information

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

	Six Months Ended June 30,	
	2023	**2022**
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 1,171	$ 667
Non-cash activities:		
Fixed assets acquired under finance lease	$ —	$ 159

(16) Related Party Transactions

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, 2022 and Item 5 of Part II of this Quarterly Report on Form 10-Q, we are party to an Investor Rights Agreement, Registration Rights Agreements and certain other agreements with OrbiMed Royalty Opportunities II, LP ("Royalty Opportunities") and ROS Acquisition Offshore LP ("ROS"), which are funds affiliated with OrbiMed Advisors LLC ("OrbiMed"). OrbiMed beneficially owns 67% of the Company's common stock.

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

(17) 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 99% of sales were in the United States for the three months ended June 30, 2023 and 2022, and 99% for the six months ended June 30, 2023 and 2022. Total revenue by major geographic area is as follows (in thousands):

	Three Months Ended June 30,	
	2023	**2022**
United States	$ 19,987	$ 15,025
Rest of world	245	252
Total revenue	$ 20,232	$ 15,277

	Six Months Ended June 30,	
	2023	**2022**
United States	$ 37,501	$ 27,719
Rest of world	675	517
Total revenue	$ 38,176	$ 28,236

(18) Subsequent Event

On July 3, 2023, we entered into a securities purchase agreement pursuant to which we issued an aggregate of 20,000,000 shares of common stock to accredited investors in a private placement at a per share purchase price of $0.75 at a closing held on July 6, 2023. The gross proceeds to us from the

private placement were $15.0 million, before deducting estimated offering fees and expenses payable by us. We expect to use the net proceeds from the private placement for working capital and other general corporate purposes.

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, 2022. 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.

Business Overview

We develop, manufacture and market regenerative and stabilization 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 through independent distributors and stocking agents, supported by direct employees.

We have an extensive sales channel of independent commissioned agents and stocking distributors in the United States representing some or all of our products. We also maintain a national accounts program to enable our agents to gain access to integrated delivery network hospitals ("IDNs") and through group purchasing organizations ("GPOs"). We have biologics contracts with major GPOs, as well as extensive access to IDNs across the United States for both biologics and spine hardware systems. While our focus is the United States market, we promote and sell our products internationally through stocking distribution partners in Canada, Mexico, South America, Australia, and certain Pacific region countries.

We have focused and intend to continue to focus primarily on four key growth initiatives: (1) introduce new products; (2) expand our distribution network; (3) penetrate adjacent markets; and (4) leverage our growth platform with technology and strategic acquisitions. While the intent of these four key growth initiatives is to increase our future revenues, no assurance can be provided that we will be successful in implementing these growth initiatives or increasing our future revenues.

Acquisition of Coflex and CoFix Product Lines

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

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

For additional information regarding the acquisition of Surgalign SPV, refer to Note 2 – Acquisition of Coflex and CoFix Product Lines in the condensed consolidated financial statements in this Form 10-Q.

Recent Development: Asset Purchase Agreement

As previously disclosed, on June 18, 2023, we entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Surgalign Holdings, Inc. ("Surgalign Holdings"), pursuant to which, subject to the terms and conditions set forth in the Asset Purchase Agreement, we agreed to acquire certain assets of Surgalign Holdings and its subsidiaries on an as-is, where-is basis, including specified inventory, intellectual property and intellectual property rights, contracts, records and all outstanding equity securities of its international subsidiaries, and intangibles related to the business of designing, developing and manufacturing hardware medical technology and distributing biologics medical technology, as conducted by Surgalign Holdings and its subsidiaries (collectively, the "Assets"), and assume certain specified liabilities of Surgalign Holdings and its subsidiaries (collectively, the "Liabilities" and such acquisition of the Assets and assumption of the Liabilities together, the "Transaction") for a total purchase price of $5 million in cash. We delivered 10% of the purchase price to an escrow agent, which may be returned to us in the event of specified trigger events, including termination of the Asset Purchase Agreement, subject to certain exceptions relating to a breach of the Asset Purchase Agreement by us.

Surgalign Holdings, together with certain of its subsidiaries, is a debtor in a voluntary Chapter 11 case before the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"), which commenced on June 19, 2023, and therefore, the Transaction is being conducted through a Bankruptcy Court-supervised process and is subject to approval of the sale by the Bankruptcy Court and the satisfaction of certain conditions. Following Bankruptcy Court approval, we were designated as the initial bidder in connection with a sale of the Assets under Section 363 of the Bankruptcy Code. On July 28, 2023, the Seller filed a Notice of Successful Bidder announcing the Company as the successful bidder in an auction conducted under Bankruptcy-court approved bidding procedures. Pursuant to the terms of the Asset Purchase Agreement, and pending the issuance of a Sale Order by the Bankruptcy Court, closing of the Transaction is expected to occur after the Bankruptcy Court sale hearing, scheduled for August 8, 2023, but in no event later than September 1, 2023.

Recent Development: July 2023 Private Placement

On July 3, 2023, we entered into a securities purchase agreement pursuant to which we issued an aggregate of 20,000,000 shares of common stock to accredited investors in a private placement at a per share purchase price of $0.75 at a closing held on July 6, 2023. The gross proceeds to us from the private placement were $15.0 million, before deducting estimated offering fees and expenses payable by us. We expect to use the net proceeds from the private placement for working capital and other general corporate purposes.

Results of Operations

Comparison of Three and Six Months Ended June 30, 2023 and June 30, 2022

Revenue

Total revenue for the three and six months ended June 30, 2023 was $20.2 million and $38.2 million, respectively, which represents an increase of 32% and 35%, respectively, compared to $15.3 million and $28.2 million for the three and six months ended June 30, 2022, respectively. These revenue increases are attributed primarily to greater independent agent sales, the effect of the contribution of Coflex and CoFix product sales and opportunistic private label sales.

Cost of Sales and Gross Profit

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 increased by 12%, or $0.8 million, to $7.7 million for the three months ended June 30, 2023 from $6.9 million for the three months ended June 30, 2022. Cost of sales increased by 23%, or $2.8 million, to $15.1 million for the six months ended June 30, 2023 from $12.3 million for the six months ended June 30, 2022. These increases in cost of sales are primarily due to higher sales volumes.

Gross profit as a percentage of revenue increased to 61.6% for the three months ended June 30, 2023 compared to 54.8% for the same period in 2022 and increased to 60.2% for the six months ended June 30, 2023 compared to 56.4% for the same period in 2022. Of the increase for the three-month comparison, 580 basis points were for the impact of Coflex and CoFix products and 230 basis points resulted from decreased charges for excess and obsolete inventory, partially offset by 310 basis points related to higher product costs. Of the increase for the six-month comparison, 550 basis points were for the impact of Coflex and CoFix products and 210 basis points resulted from decreased charges for excess and obsolete inventory, partially offset by 300 basis points related to higher product costs.

General and Administrative

General and administrative expenses consist principally of personnel costs for corporate employees, cash-based and stock-based compensation related costs, legal, accounting and professional fees, and occupancy costs. General and administrative expenses increased 31%, or $1.2 million, to $5.0 million for the three months ended June 30, 2023, compared to $3.8 million for the same period in 2022. General and administrative expenses increased 27%, or $2.1 million, to $9.8 million for the six months ended June 30, 2023, compared to $7.8 million for the same period in 2022. The increase for the three-month comparison is primarily attributable to $0.4 million of amortization of intangible assets associated with the Coflex and CoFix product lines, $0.4 million of additional compensation expense related to additional headcount and $0.2 million of acquisition-related professional fees. The increase for the six-month comparison is primarily attributable to $0.8 million of additional compensation expense related to additional headcount, $0.6 million of amortization of intangible assets associated with the Coflex and CoFix product lines and $0.3 million of acquisition-related professional fees.

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 increased 55%, or $3.1 million, to $8.7 million for the three months ended June 30, 2023, compared to $5.6 million for the same period in 2022. Sales and marketing expenses increased 45%, or $4.9 million, to $15.8 million for the six months ended June 30, 2023, compared to $10.8 million for the same period in 2022. The increase for the three-month comparison is primarily due to additional commission expense of $1.7 million resulting from revenue growth and $0.8 million of additional compensation expense related to additional headcount. The increase for the six-month comparison is primarily due to additional commission expense of $2.9 million resulting from revenue growth, $1.1 million of additional compensation expense related to additional headcount and $0.3 million of additional expense for travel and tradeshows.

Research and Development

Research and development expenses consist primarily of internal costs for the development of new technologies and processes. Research and development expenses were $0.2 million for both the three months ended June 30, 2023 and 2022. Research and development expense was $0.4 million for the six months ended June 30, 2023, compared to $0.5 million for the same period in 2022.

Interest Expense

Interest expense consists of interest incurred from our debt instruments. Interest expense was $0.8 million and $1.4 million for the three and six months ended June 30, 2023, respectively, compared to $0.4 million and $0.8 million for the three and six months ended June 30, 2022. The increase in interest expense during the three and six months ended June 30, 2023 compared to the comparable periods in the prior year resulted primarily from increases to the base interest rate applied to our debt instruments and the additional borrowing of $5.0 million under our term loan agreement in February 2023. We expect that our annualized interest expense will increase approximately $0.1 million for every 50 basis points of increase to the reference rate associated with our credit agreements.

Liquidity and Capital Resources

Working Capital

Since our inception, we have financed our operations through primarily operating cash flows, private placements of equity securities and convertible debt, debt facilities, common stock rights offerings, and other debt transactions. The following table summarizes our working capital as of June 30, 2023 and December 31, 2022 (in thousands):

	June 30, 2023	December 31, 2022
Cash and cash equivalents	$ 4,448	$ 20,507
Accounts receivable, net	13,744	10,853
Inventories	20,364	17,285
Total current assets	39,571	49,318
Accounts payable	4,444	3,490
Accrued liabilities	6,255	5,496
Line of credit	5,031	3,379
Current portion of long-term debt	708	2,333
Total current liabilities	16,989	15,218
Net working capital	22,582	34,100

Our decrease in cash and cash equivalents is due primarily to the use of cash for our acquisition of Surgalign SPV, Inc. and our net loss during the six months ended June 30, 2023 and increases to accounts receivable and inventory balances.

Subsequent to the end of the second quarter of 2023, we issued an aggregate of 20,000,000 shares of our common stock to accredited investors in a private placement at a per share purchase price of $0.75, resulting in gross proceeds to us of $15.0 million, before deducting estimated offering fees and expenses payable by us. We expect to use the net proceeds from the private placement for working capital and other general corporate purposes.

Cash Flows

Net cash used in operating activities for the first six months of 2023 was $4.8 million compared to $1.0 million for the first six months of 2022. This increase relates primarily to increases in accounts receivable and inventory balances.

Net cash used in investing activities for the first six months of 2023 was $17.8 million compared to $0.6 million for the first six months of 2022. This increase relates primarily to the use of $17.0 million in cash for the acquisition of Surgalign SPV, Inc. during the first six months of 2023.

Net cash provided by financing activities for the first six months of 2023 was $6.5 million, consisting primarily of $5.0 million of additional borrowings under our term loan, compared to $94 thousand for the first six months of 2022.

Current and Prior Credit Facilities

On May 6, 2021, the Company, as guarantor, and our subsidiaries, as borrowers (collectively, the "Borrowers"), entered into a Credit, Security and Guaranty Agreement (Term Loan) (the "Term Credit Agreement") and Credit, Security and Guaranty Agreement (Revolving Loan) (the "Revolving Credit Agreement" and, together with the Term Credit Agreement, the "Credit Agreements") with MidCap Financial Trust, in its capacity as agent ("MidCap").

The Term Credit Agreement provides for a secured term loan facility (the "Term Facility") in an aggregate principal amount of $12.0 million (the "Term Loan Commitment"), which was funded to the Borrowers immediately, and an additional $5.0 million tranche available solely at the discretion of MidCap and the lenders, for the purposes agreed to between the Company, the Borrowers and the lenders in advance of the making of loans under such additional tranche (the "Discretionary Tranche"). The Revolving Credit Agreement provides for a secured revolving credit facility (the "Revolving Facility," and, together with the Term Facility, the "Facilities") under which the Borrowers may borrow up to $8.0 million (such amount, the "Revolving Loan Commitment") at any one time, the availability of which is determined based on a borrowing base equal to percentages of certain accounts receivable and inventory of the Borrowers in accordance with a formula set forth in the Revolving Credit Agreement. All borrowings under the Revolving Facility are subject to the satisfaction of customary conditions, including the absence of default, the accuracy of representations and warranties in all material respects and the delivery of an updated borrowing base certificate.

On March 7, 2022, the Credit Agreements were amended to, among other things, (i) provide for a waiver of compliance with respect to the Company's minimum adjusted EBITDA requirement if and so long as the Company's liquidity (as specifically defined in the Credit Agreements) is in excess of $14 million and there is not otherwise an event of default under the Credit Agreements, commencing with the next delivery of the compliance certificate required under the Credit Agreements, and (ii) re-set the date certain fees payable in connection with optional prepayments are determined to the date the amendment was executed and consequently extend such fees' original expiration. In addition, the exit fees were increased by 25 basis points.

On February 28, 2023, in connection with the acquisition of Surgalign SPV, the Term Credit Agreement was amended pursuant to an Amendment No. 3 to Credit, Security and Guarantee Agreement (Term Loan) ("Term Amendment No. 3") to provide approximately $5.0 of funding for such acquisition, which replaced the Discretionary Tranche. In addition to the Term Amendment No. 3., we entered into an Amendment No. 3 to Credit, Security and Guarantee Agreement (Revolving Loan) (together with the Term Amendment No. 3, the "Amendments No. 3"), which amends the Revolving Credit Agreement. Additionally, the Amendments No. 3 (i) re-set the date certain fees payable in connection with optional prepayments under the Term Credit Agreement and the Revolving Credit Agreement are determined to the date the amendments were executed and consequently extended such fees' original expiration and (ii) increased the minimum amount of interest payable under the Term Credit Agreement and the Revolving Credit Agreement from 1% to 2.5%.

The Facilities have a maturity date of May 1, 2026 (the "Maturity Date"). In May 2023, the Company extended its interest only period on the Term Facility until June 2024 when the Company is required to make monthly principal payments of approximately $0.7 million on the Term Facility through the Maturity Date. Each of the Borrowers, and the Company, as guarantor, are jointly and severally liable for all of the obligations under the Facilities on the terms set forth in the Credit Agreements. The Borrowers' obligations, and the Company's obligations as a guarantor, under the Credit Agreements are secured by first-priority liens on substantially all of their assets, including, without limitation, all inventory, equipment, accounts, intellectual property and other assets of the Company and the Borrowers.

As of June 30, 2023, the Company had $5.0 million outstanding and $3.0 million of availability under the Revolving Facility.

The loans and other obligations pursuant to the Credit Agreements bear interest at a per annum rate equal to the sum of the SOFR rate, as such term is defined in the Credit Agreements, plus 0.11%, plus the applicable margin of 7.00% in the case of the Term Credit Agreement, and 4.50% in the case of the Revolving Credit Agreement, subject in each case to a floor of 2.50%. As of June 30, 2023, the effective rate of the Term Facility, inclusive of amortization of debt issuance costs and accretion of the final payment, was 13.79%, and the effective rate of the Revolving Facility was 9.77%.

The Credit Agreements contain affirmative and negative covenants customarily applicable to senior secured credit facilities, including covenants that, among other things, limit or restrict the ability of the Borrowers, subject to negotiated exceptions, to incur additional indebtedness and additional liens on their assets, engage in mergers or acquisitions or dispose of assets, pay dividends or make other distributions, voluntarily prepay other indebtedness, enter into transactions with affiliated persons, make investments, and change the nature of their businesses. In addition, the Credit Agreements require the Borrowers and the Company to maintain net product revenue at or above minimum levels and to maintain a minimum adjusted EBITDA and a minimum liquidity, in each case at levels specified in the Credit Agreements. As of June 30, 2023, we were in compliance with all covenants under the Credit Agreements.

Cash Requirements

We believe that our $4.1 million of cash and cash equivalents as of June 30, 2023, together with the net proceeds of our July 2023 private placement, amounts available under the Facilities and cash provided by operating activities, will be sufficient to meet our anticipated cash requirements through at least August 2024. However, we may require or seek additional capital to fund our future operations and business strategy prior to August 2024. Accordingly, there is no assurance that we will not need or seek additional financing prior to such time.

We may elect to raise additional financing even before we need it if market conditions for raising additional capital are favorable. We may seek to raise additional financing 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 discounted equity purchase prices, warrant coverage, liquidation or other preferences or rights that would adversely affect the rights of our current stockholders. If we issue common stock, we may do so at purchase prices that represent a discount to our trading price and/or we may issue warrants to the purchasers, which could dilute our current stockholders. If we issue preferred stock, it could adversely affect the rights of our stockholders or reduce the value of our common stock. In particular, specific rights or preferences 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 may be required to obtain the consent of the Agent under our Credit Agreements and/or OrbiMed Royalty Opportunities II, LP and ROS Acquisition Offshore LP under our Investor Rights Agreement with them, and no assurance can be provided that they would provide such consent, which could limit our ability to raise additional financing and the terms thereof. In addition, the investors in our 2022 private placement have certain participation rights with respect to certain future equity offerings for capital raising purposes.

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 during the six months ended June 30, 2023, as compared to the critical accounting estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, other than with respect to the fair value of assets acquired as part of the Coflex and CoFix product lines and the new critical accounting estimates below in light of such acquisition.

Business Combinations

When applicable, we account for the acquisition of a business in accordance with the accounting standards codification guidance for business combinations, whereby the total consideration transferred is allocated to the assets acquired and liabilities assumed, including amounts attributable to non-controlling interests, when applicable, based on their respective estimated fair values as of the date of acquisition. Goodwill represents the excess of consideration transferred over the estimated fair value of the net assets acquired in a business combination.

Assigning estimated fair values to the net assets acquired requires the use of significant estimates, judgments, inputs, and assumptions regarding the fair value of intangible assets that are separately identifiable from goodwill, inventory, and property, plant, and equipment. While the ultimate responsibility for determining estimated fair values of the acquired net assets resides with management, for material acquisitions, we may retain the services of certified valuation specialists to assist with assigning estimated fair values to certain acquired assets and assumed liabilities, including intangible assets that are separately identifiable from goodwill, inventory, and property, plant, and equipment. Estimated fair values of acquired intangible assets that are separately identifiable from goodwill, inventory, and property, plant, and equipment are generally based on available historical information, future expectations, available market data, and assumptions determined to be reasonable but are inherently uncertain with respect to future events, including economic conditions, competition, technological obsolescence, the useful life of the acquired assets, and other factors. These significant estimates, judgments, inputs, and assumptions include, when applicable, the selection of an appropriate valuation method depending on the nature of the respective asset, such as the income approach, the market or sales comparison approach, or the cost approach; estimating future cash flows based on projected revenues and/or margins that we expect to generate subsequent to the acquisition; applying an appropriate discount rate to estimate the present value of those projected cash flows we expect to generate; selecting an appropriate terminal growth rate and/or royalty rate or estimating a customer attrition or technological obsolescence factor where necessary and appropriate given the nature of the respective asset; assigning an appropriate contributory asset charge where needed; determining an appropriate useful life and the related depreciation or amortization method for the respective asset; and assessing the accuracy and completeness of other historical financial metrics of the acquiree used as standalone inputs or as the basis for determining estimated projected inputs such as margins, customer attrition, and costs to hold and sell product.

In determining the estimated fair value of intangible assets that are separately identifiable from goodwill, we typically utilize the income approach, which discounts the projected future cash flows using a discount rate that appropriately reflects the risks associated with the projected cash flows. Generally, we estimate the fair value of acquired customer relationships using the relief from royalty method under the income approach, which is based on the hypothetical royalty stream that would be received if we were to license the acquired trade name. For most other acquired intangible assets, we estimate fair value using the excess earnings method under the income approach, which is typically applied when cash flows are not directly generated by the asset, but rather, by an operating group that includes the particular asset. In certain instances, particularly in relation to developed technology or patents, we may utilize the cost approach depending on the nature of the respective intangible asset and the recency of the development or procurement of such technology. The useful lives and amortization methods for the acquired intangible assets that are separately identifiable from goodwill are generally determined based on the period of expected cash flows used to measure the fair value of the acquired intangible assets and the nature of the use of the respective acquired intangible asset, adjusted as appropriate for entity-specific factors including legal, regulatory, contractual, competitive, economic, and/or other factors such as customer attrition rates and product or order lifecycles that may limit the useful life of the respective acquired intangible asset. In determining the estimated fair value of acquired inventory, we typically utilize the cost approach for raw materials and the sales comparison approach for work in process, finished goods, and service parts. In determining the estimated fair value of acquired property, plant, and equipment, we typically utilize the sales comparison approach or the cost approach depending on the nature of the respective asset and the recency of the construction or procurement of such asset.

We may refine the estimated fair values of assets acquired and liabilities assumed, if necessary, over a period not to exceed one year from the date of acquisition by taking into consideration new information that, if known as of the date of acquisition, would have affected the estimated fair values ascribed to the assets acquired and liabilities assumed. The judgments made in determining the estimated fair value assigned to assets acquired and liabilities assumed, as well as the estimated useful life and depreciation or amortization method of each asset, can materially impact the net earnings of the periods subsequent to an acquisition through depreciation and amortization, and in certain instances through impairment charges, if the asset becomes impaired in the future. During the measurement period, any purchase price allocation changes that impact the carrying value of goodwill will affect any measurement of goodwill impairment taken during the measurement period, if applicable. If necessary, purchase price allocation revisions that occur outside of the measurement period are recorded within cost of sales, selling expenses or general and administrative expenses within our consolidated condensed statements of operations depending on the nature of the adjustment.

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 Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2023. Based upon that evaluation, our principal executive officer and principal financial officer concluded that as of June 30, 2023, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended June 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than changes implemented to integrate the internal controls of Surgalign SPV Inc. with our internal controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Our legal proceedings are discussed in Note 13 – Commitments and Contingencies in the notes to our condensed consolidated financial statements in this Form 10-Q.

ITEM 1A. RISK FACTORS

Although this Item is inapplicable to us as a smaller reporting company, we hereby disclose the following new risk factor and two revised risk factors described in our annual report on Form 10-K for the fiscal year ended December 31, 2022:

We have completed acquisitions and business combinations in the past and our current business strategy includes targeted strategic acquisitions in the future, including our pending acquisition of certain assets and liabilities of Surgalign Holdings, Inc. and our completed acquisition of Surgalign SPV. Acquisitions and business combinations are risky and may harm our business, reputation, operating results and financial condition.

One of our key growth initiatives is to add depth to our product offerings through targeted strategic acquisitions. In furtherance of this strategy, we have completed acquisitions and business combinations in the past, including our first quarter 2023 acquisition of Surgalign SPV, and may complete acquisitions and business combinations in the future, including our pending acquisition of certain assets and liabilities of Surgalign Holdings, Inc. Our ability to complete acquisitions and business combinations will depend, in part, on the availability of suitable candidates at acceptable prices, terms, and conditions; our ability to compete effectively for acquisition candidates; and the availability of capital and personnel to complete such acquisitions and run the acquired business effectively. Any acquisition or business combination could impair our business, reputation, operating results and financial condition. The benefits of an acquisition or business combination may take more time than expected to develop or integrate into our operations, and we cannot guarantee that previous or future acquisitions or business combinations will, in fact, produce any benefits. Acquisitions and business combinations may involve a number of risks, the occurrence of which could adversely affect our business, reputation, operating results and financial condition, including:

- diversion of management's attention;
- disruption to our existing operations and plans;
- inability to effectively manage our expanded operations;
- difficulties or delays in integrating and assimilating information and financial systems, operations, manufacturing processes and products of an acquired business or other business venture or in realizing projected efficiencies, growth prospects, cost savings, and synergies;
- inability to successfully integrate or develop a distribution channel for acquired product lines;
- potential loss of key employees, customers, distributors, or sales representatives of the acquired businesses or adverse effects on existing business relationships with suppliers, customers, distributors, and sales representatives;
- adverse impact on overall profitability if our expanded operations do not achieve the financial results projected in our valuation models;
- reallocation of amounts of capital from other operating initiatives and/or an increase in our leverage and debt service requirements to pay acquisition purchase prices or other business venture investment costs, which could in turn restrict our ability to access additional capital when needed or pursue other important elements of our business strategy;
- infringement by acquired businesses or other business ventures of intellectual property rights of others;
- violation of confidentiality, intellectual property and non-compete obligations or agreements by employees of an acquired business or lack of or inadequate formal intellectual property protection mechanisms in place at an acquired business;
- inaccurate assessment of additional post-acquisition investments, undisclosed, contingent, tax or other liabilities or problems, unanticipated costs associated with an acquisition, and an inability to recover or manage such liabilities and costs;
- incorrect estimates made in the accounting for acquisitions and incurrence of non-recurring charges; and
- write-off of significant amounts of goodwill or other assets as a result of deterioration in the performance of an acquired business or product line, adverse market conditions, changes in the competitive landscape, changes in laws or regulations that restrict activities of an acquired business or product line, or as a result of a variety of other circumstances.

In addition, effective internal controls are necessary for us to provide reliable and accurate financial reports and to effectively prevent fraud. The integration of acquired businesses may result in our systems and controls becoming increasingly complex and more difficult to manage. We devote significant resources and time to comply with the internal control over financial reporting requirements of the Sarbanes-Oxley Act of 2002. However, we cannot be certain that these measures will ensure that we design, implement, and maintain adequate control over our financial processes and reporting in the future, especially in the context of acquisitions of other businesses, regardless of whether such acquired business was previously privately or publicly held. Any difficulties in the assimilation of acquired businesses into our control system could harm our operating results or cause us to fail to meet our financial reporting obligations. Also, some acquisitions, such as our acquisition of Surgalign SPV and our pending acquisition of certain assets and liabilities of Surgalign Holdings, Inc., may require the consent of the lenders under our credit agreements with MidCap and/or the consent of Royalty Opportunities and ROS under the Investor Rights Agreement. We cannot predict whether such approvals would be forthcoming or the terms on which the lenders or these investors would approve future acquisitions. These risks, among others, could be heightened if we complete a large acquisition or other business combination or multiple transactions within a relatively short period of time.

Worldwide economic and market conditions, including with respect to financial institutions, and social instability could adversely affect our revenue, liquidity, financial condition, or results of operations.

The health of the global economy, and the credit markets and the financial services industry in particular, as well as the stability of the social fabric of our society, affects our business and operating results. The global economic slowdown, inflation, rising interest rates and the prospects for recession, as well as recent and potential future disruptions in access to bank deposits or lending commitments due to bank failures, could materially and adversely affect our revenue, liquidity, financial condition and results of operations. For example, the recent closures of Silicon Valley Bank, Signature Bank and First Republic Bank and their placement into receivership with the Federal Deposit Insurance Corporation ("FDIC") created bank-specific and broader financial institution liquidity risk and concerns. Although depositors at these institutions will continue to have access to their funds, future adverse developments with respect to specific financial institutions or the broader financial services industry may lead to market-wide liquidity shortages. The failure of any bank with which we deposit our funds or otherwise do business could reduce the amount of cash we have available for our operations or delay our ability to access such funds. Any such failure may increase the possibility of a sustained deterioration of financial market liquidity, or illiquidity at clearing, cash management and/or custodial financial institutions. In the event we have a commercial relationship with a bank that fails or is otherwise distressed, we may experience delays or other issues in meeting our financial obligations. If other banks and financial institutions enter receivership or become insolvent in the future in response to financial conditions affecting the banking system and financial markets, our ability to access our cash and cash equivalents and investments may be threatened and could have a material adverse effect on our business and financial condition. Additionally, the credit and financial markets may be adversely affected by the current conflict between Russia and Ukraine and measures taken in response thereto. If the credit markets are not favorable, we may be unable to raise additional financing when needed or on favorable terms. Our customers may experience financial difficulties or be unable to borrow money to fund their operations, which may adversely impact their ability to purchase our products or to pay for our products on a timely basis, if at all. In addition, adverse economic conditions, such as the lingering economic impacts of COVID-19, continuing supply chain disruptions, labor shortages and persistent inflation, and measures taken in response thereto, including recent interest rate increases, could also adversely impact our suppliers' ability to provide us with materials and components, which may negatively impact our business. As with our customers and vendors, these economic conditions make it more difficult for us to accurately forecast and plan our future business activities.

Our actual operating results may differ significantly from our guidance, which could cause the market price of our common stock to decline.

We recently initiated the issuance of guidance regarding our future performance, such as our anticipated annual revenue, that represents our management's estimates as of the date of release. This guidance, which consists of forward-looking statements, is prepared by our management and is qualified by, and subject to, the assumptions and the other information contained or referred to in the release. Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither any independent registered public accounting firm nor any other independent expert or outside party compiles, examines or reviews the guidance and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of these ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from the guidance and the variations may be material. Investors should also recognize that the reliability of any forecasted financial data will diminish the farther in the future that the data are forecast. In light of the foregoing, investors are urged to put the guidance in context and not to place undue reliance on it.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this Quarterly Report on Form 10-Q could result in the actual operating results being different than our guidance, and such differences may be adverse and material. The failure to achieve such guidance could disappoint investors and analysts and cause the market price of our common stock to decline.

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

Not applicable.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
2.1	Equity Purchase Agreement, dated February 28, 2023, by and among Xtant Medical Holdings, Inc, Surgalign SPV, Inc., Surgalign Spine Technologies, Inc., and Surgalign Holdings, Inc. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 1, 2023 (SEC File No. 001-34951) and incorporated by reference herein).
2.2	Asset Purchase Agreement, dated June 18, 2023, by and between Surgalign Holdings, Inc. and Xtant Medical Holdings, Inc. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 20, 2023 (SEC File No. 001-34951) and incorporated by reference herein).
3.1	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. 001-34951) and incorporated by reference herein).
3.2	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. 001-34951) and incorporated by reference herein).
3.3	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Xtant Medical Holdings, Inc., as amended (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 1, 2020 (SEC File No. 001-34951) and incorporated by reference herein).
3.4	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Xtant Medical Holdings, Inc., as Amended (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 28, 2023 (SEC File No. 001-34951) and incorporated by reference herein).
3.5	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Xtant Medical Holdings, Inc., as Amended (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on July 28, 2023 (SEC File No. 001-34951) and incorporated by reference herein).
3.6	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Xtant Medical Holdings, Inc., as Amended (filed as Exhibit 3.3 to the Registrant's Current Report on Form 8-K filed with the SEC on July 28, 2023 (SEC File No. 001-34951) and incorporated by reference herein).
3.7	Third Amended and Restated Bylaws of Xtant Medical Holdings, Inc. (Effective as of June 1, 2023) (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 19, 2023 (SEC File No. 001-34951 and incorporated by reference herein).
10.1	Amendment No. 1 to Investor Rights Agreement dated as of May 2, 2023 among Xtant Medical Holdings, Inc., OrbiMed Royalty Opportunities II, LP and ROS Acquisition Offshore LP (filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 (SEC File No. 001-34951) and incorporated by reference herein).
10.2	Form of Indemnification Agreement for Directors and Officers (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 4, 2023 (SEC File No. 001-34951) and incorporated by reference herein).

31.1	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).
31.2	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).
32.1	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).
32.2	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).
101	The following materials from Xtant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2023, formatted in Inline 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).
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

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

XTANT MEDICAL HOLDINGS, INC.

Date: August 1, 2023

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

Date: August 1, 2023

By: */s/ Scott Neils*
Name: Scott Neils
Title: Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

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: August 1, 2023

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

Exhibit 31.2

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, Scott Neils, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Xtant Medical Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2023

By: */s/ Scott Neils*
Scott Neils
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 on Form 10-Q for the quarterly period ended June 30, 2023 of Xtant Medical Holdings, Inc. (the "Company"), 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.

August 1, 2023

/s/ Sean E. Browne

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

Exhibit 32.2

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 on Form 10-Q for the quarterly period ended June 30, 2023 of Xtant Medical Holdings, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Neils, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 1, 2023

/s/ Scott Neils

Scott Neils
Chief Financial Officer
(Principal Financial Officer)