Xtant Medical Holdings, Inc.
Form DEF 14A
January 22, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2)**
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

**Xtant Medical HOLDINGS, INC.**
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

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1) Amount Previously Paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:

664 Cruiser Lane
Belgrade, Montana 59714
(406) 388-0480

**Notice of Special Meeting of Stockholders To Be Held February 13, 2018**

To Our Stockholders:

You are invited to attend a Special Meeting of Stockholders (the "Special Meeting") of Xtant Medical Holdings, Inc. (the "Company") on February 13, 2018, at 10:00 a.m. Eastern Standard Time, at 112 South Tryon Street, 2nd Floor, Charlotte, North Carolina 28284.

On January 11, 2018, we announced that we had entered into a Restructuring and Exchange Agreement (the "Restructuring Agreement") with ROS Acquisition Offshore LP ("ROS"), OrbiMed Royalty Opportunities II, LP ("OrbiMed", and together with ROS, the "Investors"), Bruce Fund, Inc. ("Bruce Fund"), Park West Partners International, Limited ("PWPI"), Park West Investors Master Fund, Limited ("PWIMF"), and Telemetry Securities, L.L.C. ("Telemetry", and together with Bruce Fund, PWPI and PWIMF, the "Consenting Noteholders"), which constitute all of the holders (collectively, the "Noteholders") of the Company's outstanding 6.00% convertible senior unsecured notes due 2021 (the "Notes").

Under the Restructuring Agreement, the Investors converted the Notes issued to the Investors in January 2017 in the aggregate principal amount of $1.627 million, plus accrued and unpaid interest, at the $0.7589 per share conversion rate originally provided thereunder, into approximately 2.3 million shares of common stock of the Company, par value $0.000001 per share ("Common Stock"), on January 17, 2018 (the "Tier 1 Transaction"). After completion of the Tier 1 Transaction and after giving effect to the 1:12 reverse stock split described below, upon approval by our stockholders, the remaining $70.238 million aggregate principal amount of the Notes held by the Noteholders (the "Remaining Notes"), plus accrued and unpaid interest, will be exchanged for newly-issued shares of Common Stock at an exchange rate of 138.8889 shares per $1,000 principal amount of notes, for an exchange price of $7.20 per share (which, on a pre-reverse stock split basis, equates to an exchange price of $0.60 per share) (the "Tier 2 Transaction"). Assuming that the proposals described below are approved by our stockholders and the Tier 2 Transaction is consummated on February 15, 2018, the Remaining Notes would be exchanged for approximately 10.4 million newly-issued shares of Common Stock (which, on a pre-reverse stock split basis, equates to approximately 124.6 million shares of Common Stock) in the Tier 2 Transaction. Furthermore, if the proposals described below are approved by our stockholders, the Investors have also agreed to purchase from the Company in a private placement, simultaneously with the

consummation of the Tier 2 Transaction, an aggregate of $6,809,887 of Common Stock at a price per share of $7.20 (which, on a pre-reverse stock split basis, equates to a price per share of $0.60) (the "Private Placement" and, together with the Tier 1 Transaction and the Tier 2 Transaction, the "Transactions"). Assuming that the Tier 2 Transaction and the Private Placement are consummated on February 15, 2018, following the consummation of the Transactions, the Investors would own, in the aggregate, approximately 70.4%, and the Noteholders would own, in the aggregate, approximately 88.5%, of the outstanding Common Stock. Consequently, existing non-Noteholder stockholders of the Company, who currently own approximately 95.7% of the outstanding Common Stock, would own approximately 11.3% of the outstanding Common Stock following the consummation of the Transactions. Following the consummation of the Tier 2 Transaction and the Private Placement, we intend to launch a rights offering to allow stockholders of the Company to purchase Common Stock at the same price per share as the Tier 2 Transaction and the Private Placement.

The primary purposes of our entry into the Restructuring Agreement are to reform our capital structure, meet our liquidity needs, to reposition the Company for long-term growth, and to regain compliance with NYSE American LLC (formerly the NYSE MKT) ("NYSE American") listing standards. Stockholder approval is required under Sections 713(a) and 713(b) of the NYSE American Company Guide to complete the Transactions, which (i) will require the issuance in the Tier 2 Transaction and Private Placement of Common Stock in excess of 20% of the total number of shares of our Common Stock outstanding immediately before the Tier 2 Transaction and (ii) will result in a change of control of the Company. In addition, stockholder approval is required in order to effectuate a reverse stock split and amend our certificate of incorporation to allow a sufficient number of authorized shares to complete the Tier 2 Transaction and the Private Placement. **These approvals are required for us to realize the full potential of our transaction with the Noteholders.** If we fail to obtain these approvals, the Transactions will not be completed and we will not receive the benefits described above and in the enclosed Proxy Statement. Accordingly, we urge you to vote your shares for the approval of all proposals described in this document.

Specifically, we are asking you to vote on the following proposals (the "Proposals") at the Special Meeting:

1. To approve the issuance of shares of Common Stock for purposes of Sections 713(a) and 713(b) of the NYSE American Company Guide

2. To approve an amendment to our certificate of incorporation to effect a reverse stock split of the Common Stock at a ratio of 1:12, to change the number of authorized shares of Common Stock and preferred stock available for issuance and to make such other changes as are described in the enclosed Proxy Statement, as requested by the Investors pursuant to the Restructuring Agreement;

3. To elect six (6) directors named in the accompanying Proxy Statement effective on the closing of the Transactions to serve on the Company's Board of Directors until their respective successors have been duly elected and qualified;

4. To approve an adjournment of the meeting, if necessary or appropriate, to solicit additional proxies in favor of the foregoing Proposals and

5. To transact such other business as may properly be brought before the Special Meeting and any adjournment or postponement thereof.

For additional information concerning the Transactions with the Noteholders, please see the sections of the Proxy Statement titled *Background of the Transactions* beginning on page 7 and *Description of the Transactions* beginning on page 12.

Stockholders of record at the close of business on January 18, 2018, shall be entitled to notice of and to vote at the Special Meeting and any adjournments or postponements thereof.

**Your vote is important. Please submit a proxy as soon as possible so that your shares can be voted at the Special Meeting. You may submit your proxy by mail or via the Internet, and you may revoke your proxy and vote in person if you decide to attend the Special Meeting.**

**Important Notice Regarding the Availability of Proxy Materials for the Special Meeting to Be Held on February 13, 2018:** The Proxy Statement is available at www.xtantmedical.com (click "Investors" and "SEC Filings").

Thank you for your continued support of Xtant Medical Holdings.

**By order of the Board of Directors**

/s/ Carl D. O'Connell
Carl D. O'Connell
*Chief Executive Officer*

Belgrade, Montana

January 22, 2018

**Information about Attending the Special Meeting**

Only stockholders of record on the record date of January 18, 2018, are entitled to notice of, and to attend or vote at, the Special Meeting. If you plan to attend the meeting in person, please bring the following:

1. Photo identification.

2. Acceptable Proof of Ownership if your shares are held in "street name."

*Street Name* means your shares are held of record by brokers, banks or other institutions.

*Acceptable Proof of Ownership* is either (a) a letter from your broker confirming that you beneficially owned shares of the Company's Common Stock on the record date or (b) an account statement showing that you beneficially owned shares of the Company's Common Stock on the record date. If your shares are held in street name, you may attend the meeting with proof of ownership, but you may not vote your shares in person at the Special Meeting unless you have obtained a "legal proxy" or other evidence from your Broker giving you the right to vote your shares at the Special Meeting.

**XTANT MEDICAL HOLDINGS, INC.**
664 Cruiser Lane
Belgrade, Montana 59714
(406) 388-0480

**PROXY STATEMENT FOR THE SPECIAL MEETING OF STOCKHOLDERS**
**TO BE HELD ON FEBRUARY 13, 2018**

## QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS

## AND THE SPECIAL MEETING

**Q: Why am I receiving these materials?**

**A:** We are providing these proxy materials to you in connection with the solicitation of proxies by the Board of Directors of the Company (the "Board") for a special meeting of stockholders (the "Special Meeting"), which will take place on February 13, 2018. As a stockholder of record, you are invited to attend the Special Meeting and are entitled and requested to vote on the items of business described in this Proxy Statement. This Proxy Statement and accompanying proxy card (or voting instruction card) are being mailed on or about January 26, 2018 to all stockholders entitled to vote at the Special Meeting.

**Q: When and where will the Special Meeting be held?**

**A:** The Special Meeting will be held on February 13, 2018 at 10:00 a.m. Eastern Standard Time at 112 South Tryon Street, 2nd Floor, Charlotte, North Carolina 28284.

**Q: What information is contained in this Proxy Statement?**

**A:** The information in this Proxy Statement relates to the Proposals to be voted on at the Special Meeting, the voting process, and other information that the Securities and Exchange Commission (the "SEC") requires us to provide to our stockholders in connection with the Special Meeting of our stockholders.

**Q: What items of business will be voted on at the Special Meeting?**

**A:** We are asking our stockholders of record to vote on the following Proposals, all of which are described in detail in this Proxy Statement:

· A Proposal to approve the issuance of shares of Common Stock for purposes of Sections 713(a) and 713(b) of the NYSE American Company Guide

· A Proposal to approve an amendment to our certificate of incorporation to effect a reverse stock split of the Common Stock at a ratio of 1:12, to change the number of authorized shares of Common Stock and preferred stock available for issuance and to make such other changes as are described below, as requested by the Investors pursuant to the Restructuring Agreement.

· A Proposal to elect six (6) directors effective on the closing of the Transactions to serve on the Board until their respective successors have been duly elected and qualified.

You can find more information about the Transactions with the Noteholders in the sections of this Proxy Statement titled *Background of the Transactions* beginning on page 7 and *Description of the Transactions* beginning on page 12.

In total, we are asking you to vote on three Proposals, all of which have been unanimously approved by our Board and our Special Strategic Committee to the Board (the "Strategic Committee"). We may also request that you approve a fourth Proposal to adjourn the meeting, if necessary or appropriate, to solicit additional proxies in favor of the other Proposals.

**Q: How many votes must the nominees for director have to be elected?**

**A:** In order for a director to be elected at a meeting at which a quorum is present, a nominee must receive the affirmative vote of a plurality of the shares voted. There is no cumulative voting for our directors or otherwise.

**Q: What are the voting requirements to approve the other Proposals?**

**A:** The affirmative vote of a majority of the shares cast in person or represented by proxy at the Special Meeting and entitled to vote on the matter is required to approve the issuance of shares of Common Stock and to approve an amendment to our certificate of incorporation (which includes the reverse stock split).

**Q: How does the Board recommend that I vote?**

**A:** Our Board recommends that you vote your shares "FOR" the approval of the issuance of shares of Common Stock for purposes of Sections 713(a) and 713(b) of the NYSE American Company Guide, "FOR" the amendment to our certificate of incorporation (which includes the reverse stock split), and "FOR" the election of the members to the Board. For further details, please see the section of this Proxy Statement titled *Recommendation of the Board of Directors of the Company* beginning on page 18.

**Q: What shares may I vote?**

Each share of our Common Stock issued and outstanding as of the close of business on January 18, 2018 (the "Record Date") is entitled to one vote on each of the matters to be voted upon at the Special Meeting.

**A:**

You may vote all shares owned by you as of the Record Date, including (a) shares held directly in your name as the stockholder of record and (b) shares held for you as the beneficial owner through a broker, trustee or other nominee (collectively, a "Broker"). We had 20,454,536 shares of Common Stock issued and outstanding on the Record Date.

**Q: What is the difference between being a stockholder of record and being the beneficial owner of shares held in street name?**

**A:** A stockholder of record owns shares which are registered in his or her own name. A beneficial owner owns shares which are held in street name through a third party, such as a Broker. As summarized below, there are some distinctions between stockholders of record and beneficial owners.

**Stockholder of Record**

You are the stockholder of record of any of your shares registered directly in your name with our transfer agent, Corporate Stock Transfer. With respect to such shares, these proxy materials are being sent to you by the Company. As the stockholder of record, you have the right to grant your voting proxy directly to our designee,

Carl D. O'Connell, Chief Executive Officer, or to any other person you wish to designate, or to vote in person at the Special Meeting. We have enclosed a proxy card for you to grant your voting proxy to Mr. O'Connell.

**Shares Beneficially Held in Street Name**

You are the beneficial owner of any of your shares held in street name. With respect to such shares registered through a Broker, these proxy materials, together with a voting instruction card, are being forwarded to you by your Broker. As the beneficial owner, you have the right to direct your Broker how to vote. You may use the voting instruction card provided by your Broker for this purpose. Even if you have directed your Broker how to vote, you may also attend the Special Meeting. However, you may not vote your shares in person at the Special Meeting unless you obtain a "legal proxy" or other evidence from your Broker giving you the right to vote the shares at the Special Meeting.

**Q: Who is entitled to attend the Special Meeting and what are the admission procedures?**

**A:** You are entitled to attend the Special Meeting only if you were a stockholder as of the close of business on the Record Date or if you hold a valid proxy for the Special Meeting. A list of stockholders eligible to vote at the Special Meeting will be available for inspection at the Special Meeting. If you are a beneficial holder, you will need to provide proof of beneficial ownership as of the Record Date, such as a brokerage account statement showing that you owned shares of Common Stock as of the Record Date or the voting instruction card provided by your Broker. The Special Meeting will begin promptly at 10:00 a.m., Eastern Standard Time. You should be prepared to present photo identification for admittance. Check-in will begin one-half hour prior to the meeting. Please allow ample time for the admission procedures.

**Q: May I vote my shares in person at the Special Meeting?**

**A:** If you were a stockholder of record on the Record Date, you may vote your shares in person at the Special Meeting or through a proxy. If you decide to vote your shares in person, you do not need to present your share certificate(s) at the Special Meeting; your name will be on the list of stockholders eligible to vote. If you hold your shares beneficially in street name, you may vote your shares in person at the Special Meeting only if you obtain a legal proxy or other evidence from your Broker giving you the right to vote the shares. *Even if you plan to attend the Special Meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the Special Meeting.*

**Q: How can I vote my shares without attending the Special Meeting?**

**A:** Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the Special Meeting. If you are a stockholder of record, you may vote by submitting a proxy. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your Broker. For directions on how to vote, please refer to the instructions on your proxy card or, for shares held beneficially in street name, the voting instruction card provided by your Broker.

**A:** Stockholders of record may submit proxies by completing, signing, dating and mailing their proxy cards to the address provided on the proxy card. Stockholders who hold shares beneficially in street name may vote by completing, signing and dating the voting instruction cards provided and mailing them to the address provided on the voting instruction card. The proxy card and voting instruction card also include directions as to how you may submit your vote through the Internet. The voting instruction card may also include directions for alternative methods of submitting your vote. We encourage you to vote early. If you choose to vote by mail, please allow sufficient time for your proxy or voting instruction card to reach our vote tabulator prior to the Special Meeting.

**Q: Who will count the votes?**

**A:** Votes at the Special Meeting will be counted by an inspector of election, who will be appointed by the Board.

**Q: What is the effect of not voting?**

**A:**

If you are a stockholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the Special Meeting. If you are a stockholder of record and you properly sign and return your proxy card, your shares will be voted as you direct. If no instructions are indicated on such proxy card and you are a stockholder of record, shares represented by the proxy will be voted in the manner recommended by the Board on all matters presented in this Proxy Statement, namely "FOR" the approval of the issuance of shares of Common Stock for purposes of Sections 713(a) and 713(b) of the NYSE American Company Guide, "FOR" the amendment to our certificate of incorporation (which includes the reverse stock split) and "FOR" the approval of the nominees to the Board.

If you are a beneficial owner of shares in street name and do not provide the Broker that holds your shares with specific voting instructions, then your shares will be considered "broker non-votes" and will have no effect on that proposal. Therefore, if you own shares through a Broker, you must instruct your broker how to vote in order for your vote to be counted.

**Q: How are broker non-votes and abstentions treated?**

**A:** Broker non-votes and abstentions with respect to a proposal are counted as present or represented by proxy for purposes of establishing a quorum.

**Q: Can I revoke my proxy or change my vote after I have voted?**

**A:** You may revoke your proxy and change your vote by voting again or by attending the Special Meeting and voting in person. Only your latest dated proxy card received at or prior to the Special Meeting will be counted. However, your attendance at the Special Meeting will not have the effect of revoking your proxy unless you forward written notice to the Corporate Secretary at Xtant Medical Holdings, Inc., 664 Cruiser Lane, Belgrade, Montana 59714, or you vote by ballot at the Special Meeting. If you are a beneficial owner, you will need to request a legal proxy from your Broker and bring it with you to vote at the Special Meeting.

**Q: How many votes do you need to hold the Special Meeting?**

**A:** The presence, in person or by proxy, of the holders of one-third of the shares of Common Stock outstanding and entitled to vote on the Record Date is necessary to hold the Special Meeting and conduct business. This is called a quorum. Abstentions and broker non-votes will be considered as present at the Special Meeting for purposes of establishing a quorum.

**Q: Who will bear the cost of soliciting votes for the Special Meeting?**

**A:** The Company is making this solicitation and will pay the entire cost of preparing, printing, assembling, mailing and distributing these proxy materials. In addition to the use of the mails, proxies may be solicited by personal interview, telephone, electronic mail and facsimile by directors, officers and regular employees of the Company. None of the Company's directors, officers or employees will receive any additional compensation for soliciting proxies on behalf of the Board. The Company may also make arrangements with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of soliciting material to the beneficial owners of Common Stock held of record by those owners. The Company will reimburse those brokers, custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses incurred in connection with that service.

**Q: Where can I find the voting results of the Special Meeting?**

**A:** We intend to announce preliminary voting results at the Special Meeting and will disclose results in a Current Report on Form 8-K that will be filed not more than four business days following the Special Meeting.

**CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in or incorporated by reference into this Proxy Statement, or filings with the SEC and our public releases that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Our forward-looking statements include, but are not limited to, statements regarding our "expectations," "hopes," "beliefs," "intentions," or "strategies" regarding the future. In addition, any statements that refer to projections, forecasts, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "n "plan," "possible," "potential," "predict," "project," "should" and "would," as well as similar expressions, may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward looking. Forward-looking statements contained in or incorporated by reference into this Proxy Statement may include, for example, statements about:

- our ability to obtain stockholder approval of the Proposals;
- our ability to consummate the Transactions;
- the consequences of obtaining and not obtaining stockholder approval of the Proposals and the consummation and non-consummation of the Transactions;
- if the Transactions are consummated, the effects of increased ownership by the Investors;
- the effects of the proposed amendment to our certificate of incorporation on, among other things, our NYSE American listing and the price of our Common Stock;
- the composition and corporate governance policies of our Board and its committees following the consummation of the Transactions;
- our ability to achieve the Company Forecasts;
- our ability to comply with the covenants in our senior credit facility and to make all upcoming and deferred interest payments;
- our ability to maintain sufficient liquidity to fund our operations;

- our ability to remain listed on the NYSE American;
- our ability to obtain financing on reasonable terms;
- our ability to increase revenue;
- our ability to continue as a going concern;
- our ability to maintain sufficient liquidity to fund our operations;
- the ability of our sales force to achieve expected results;
- our ability to remain competitive;
- government regulations;
- our ability to innovate and develop new products;
- our ability to obtain donor cadavers for our products;

- our ability to engage and retain qualified technical personnel and members of our management team;
- the availability of our facilities;
- government and third-party coverage and reimbursement for our products;
- our ability to obtain regulatory approvals;
- our ability to successfully integrate recent and future business combinations or acquisitions;
- our ability to use our net operating loss carry-forwards (including any impairment thereof as a result of the Transactions) to offset future taxable income;
- our ability to deduct all or a portion of the interest payments on the notes for U.S. federal income tax purposes;
- our ability to service our debt;
- product liability claims and other litigation to which we may be subjected;
- product recalls and defects;
- timing and results of clinical studies;
- our ability to obtain and protect our intellectual property and proprietary rights;
- infringement and ownership of intellectual property;
- our ability to remain accredited with the American Association of Tissue Banks.
- influence by our management;

·our ability to pay dividends; and

·our ability to issue preferred stock.

Any of these factors and other factors in this Proxy Statement or any documents incorporated by reference could cause our actual results to differ materially from the results implied by these or any other forward-looking statements made by us. Although we believe our plans, intentions and expectations reflected in the forward-looking statements we make are reasonable, we can give no assurance that we will achieve these plans, intentions or expectations. Our assumptions about future events may prove to be inaccurate. We caution you that the forward-looking statements contained in this Proxy Statement are not guarantees of future performance, and we cannot assure you that those statements will be realized or the forward-looking events and circumstances will occur. All forward-looking statements speak only as of the date of this Proxy Statement.

We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as required by law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

**BACKGROUND OF THE TRANSACTIONS**

On January 11, 2018, we announced that we entered into a Restructuring and Exchange Agreement (the "Restructuring Agreement") with ROS Acquisition Offshore LP ("ROS"), OrbiMed Royalty Opportunities II, LP ("OrbiMed", and together with ROS, the "Investors"), Bruce Fund, Inc. ("Bruce Fund"), Park West Partners International, Limited ("PWPI"), Park West Investors Master Fund, Limited ("PWIMF"), and Telemetry Securities, L.L.C. ("Telemetry", and together with Bruce Fund, PWPI and PWIMF, the "Consenting Noteholders"), which constitute all of the holders (collectively, the "Noteholders") of the Company's outstanding convertible notes (the "Notes").

Under the Restructuring Agreement, the Investors converted the Notes issued to the Investors in January 2017 in the aggregate principal amount of $1.627 million, plus accrued and unpaid interest, at the $0.7589 per share conversion rate originally provided thereunder, into approximately 2.3 million shares of common stock of the Company, par value $0.000001 per share ("Common Stock"), on January 17, 2018 (the "Tier 1 Transaction"). After completion of the Tier 1 Transaction and after giving effect to the 1:12 reverse stock split described below, upon approval by our stockholders, the remaining $70.238 million aggregate principal amount of the Notes held by the Noteholders (the "Remaining Notes"), plus accrued and unpaid interest, will be exchanged for newly-issued shares of Common Stock at an exchange rate of 138.8889 shares per $1,000 principal amount of notes, for an exchange price of $7.20 per share (which, on a pre-reverse stock split basis, equates to an exchange price of $0.60 per share) (the "Tier 2 Transaction"). Assuming that the proposals described below are approved by our stockholders and the Tier 2 Transaction is consummated on February 15, 2018, the Remaining Notes would be exchanged for approximately 10.4 million newly-issued shares of Common Stock (which, on a pre-reverse stock split basis, equates to approximately 124.6 million shares of Common Stock) in the Tier 2 Transaction. Furthermore, if the proposals described below are approved by our stockholders, the Investors have also agreed to purchase from the Company in a private placement, simultaneously with the consummation of the Tier 2 Transaction, an aggregate of $6,809,887 of Common Stock at a price per share of $7.20 (which, on a pre-reverse stock split basis, equates to a price per share of $0.60) (the "Private Placement" and, together with the Tier 1 Transaction and the Tier 2 Transaction, the "Transactions"). Assuming that the Tier 2 Transaction and the Private Placement are consummated on February 15, 2018, following the consummation of the Transactions, the Investors would own, in the aggregate, approximately 70.4%, and the Noteholders would own, in the aggregate, approximately 88.5%, of the outstanding Common Stock. Consequently, existing non-Noteholder stockholders of the Company, who currently own approximately 95.7% of the outstanding Common Stock, would own approximately 11.3% of the outstanding Common Stock following the consummation of the Transactions. Following the consummation of the Tier 2 Transaction and the Private Placement, we intend to launch a rights offering to allow stockholders of the Company to purchase Common Stock at the same price per share as the Tier 2 Transaction and the Private Placement.

The material terms of the Transactions are described in this section of this Proxy Statement under the subsection titled *Description of the Transactions* beginning on page 12.

To complete the Transactions, we have agreed to seek stockholder approval of the following matters:

- Approval of the issuance of shares of our Common Stock in excess of 20% of the total number of shares of our Common Stock outstanding immediately before the closing of the Tier 2 Transaction and the Private Placement, and which will result in a change of control of the Company, as required by Sections 713(a) and 713(b) of the NYSE American Company Manual, respectively

- Approval of an amendment to our certificate of incorporation to effect a reverse stock split of the Common Stock at a ratio of 1:12, to change the number of authorized shares of Common Stock and preferred stock available for issuance and to make such other changes as are described below, as requested by the Investors pursuant to the Restructuring Agreement; and

- Election of six (6) directors to serve on the Company's Board of Directors until their respective successors have been duly elected and qualified;

Detailed information about these Proposals can be found in this section of this Proxy Statement beginning on page 38.

The Board of Directors of the Company (the "Board") and the Special Strategic Committee to the Board (the "Strategic Committee") unanimously approved the Transactions after taking into account various factors, including the history of our strategic efforts to realize value for our business operations, our ability to generate cash flow, our current debt obligations, current market conditions, our status as a company listed on the NYSE American, our substantial doubt about our ability to continue as a going concern and other alternatives available to us, as described below.

We have incurred losses and have had cash flow issues since our inception. For the past few years, we have sought to pursue strategic alternatives regarding our lack of sufficient cash flow. In 2015, we began searching for possible options for generating additional cash flow. In the course of doing this, we have reviewed various proposals and engaged in discussions to determine whether any such transaction could be achieved on terms that we believed would be beneficial to our stockholders.

On July 31, 2015, we acquired all of the outstanding capital stock of X-spine Systems, Inc. ("X-spine") for approximately $60 million in cash, repayment of approximately $13 million of X-spine debt, and approximately 4.24 million shares of Common Stock.

Concurrent with the acquisition of X-spine, on July 31, 2015, we also completed an offering of $65.0 million aggregate principal amount of the Notes, pursuant to an Indenture, dated as of July 31, 2015, between the Company and Wilmington Trust, National Association (the "Indenture"). OrbiMed and ROS purchased $52.0 million aggregate principal amount of the Notes in the offering. On August 10, 2015, OrbiMed and ROS exercised their option with respect to an additional $3 million aggregate principal amount of the Notes.

Also on July 31, 2015, the Company refinanced approximately $24 million in existing term loans and borrowed an additional $18 million pursuant to an Amended and Restated Credit Agreement with ROS and OrbiMed (the "Credit Facility").

Despite the acquisition of X-spine, we still continued to incur losses and have cash flow issues, which caused the Company to seek additional options for capital generation and alternative methods of payment to pay interest owed under the Notes and the Credit Facility. On April 14, 2016, due to our inability to pay cash interest due on the Notes under the Indenture and the Credit Facility, we issued $2,238,166 aggregate principal amount of convertible senior unsecured notes (the "2016 Notes") in a private placement to OrbiMed and ROS. The proceeds were utilized to pay interest due under both the Notes under the Indenture and the Credit Facility on April 15, 2016.

Until April 2016, when we began our discussions with representatives of OrbiMed and ROS, we were unable to negotiate financing alternatives on terms satisfactory to us and in the best interests of our stockholders. We believed

that seeking bankruptcy was not in the best interests of our stockholders as long as other alternatives could be pursued. In April 2016, representatives of OrbiMed and ROS approached us initially to discuss options for restructuring of OrbiMed's and ROS' Notes under the Indenture. Our management members met with those representatives to discuss a possible transaction and conducted several telephonic and in-person meetings to discuss potential options, which resulted in OrbiMed and ROS agreeing to allow the Company to enter into a senior secured revolving credit facility with another lender.

On May 25, 2016, we entered into a Loan and Security Agreement (the "LSA") with Silicon Valley Bank, a California corporation (the "SVB"), pursuant to which SVB agreed to provide us with a revolving line of credit in the aggregate principal amount of $6,000,000. On August 12, 2016, we entered into a First Loan Modification Agreement (the "Modification Agreement") with SVB, which increased the aggregate principal amount of the revolving line of credit to $11,000,000.

In July 2016, the Company began discussing with Maxim Group LLC ("Maxim") the possibility of raising capital through a rights offering (the "Maxim Rights Offering").

On August 15, 2016, we received a letter from the NYSE American notifying us that we were not in compliance with the NYSE American's continued listing standards. Specifically, we were not in compliance with Section 1003(a)(i) of the Company Guide with stockholders' equity of less than $2,000,000 and net losses in two of our three most recent fiscal years, Section 1003(a)(ii) with stockholders' equity of less than $4,000,000 and net losses in three of our four most recent fiscal years and Section 1003(a)(iii) of the Company Guide with stockholders' equity of less than $6,000,000 and net losses in five of our most recent fiscal years. According to Section 1003(a) of the Company Guide, the NYSE American will normally consider providing an exemption for entities not in compliance with Sections 1003(a)(i) through (a)(iii) of the Company Guide if the entity is in compliance with the following standards: (1) total value of market capitalization of at least $50,000,000; or total assets and revenue of $50,000,000 each in its last fiscal year, or in two of its last three fiscal years; and (2) the issuer has at least 1,100,000 shares publicly held, a market value of publicly held shares of at least $15,000,000 and 400 round lot shareholders. Previously, we were exempt from the minimum stockholders equity requirement because (i) at least 1,100,000 shares are publicly held, (ii) a market value of publicly held shares was at least $15,000,000, (iii) there were 400 round lot shareholders, and (iv) the market capitalization of its public float was more than the required $50,000,000 or total assets and revenue of $50,000,000 each in our last fiscal year, or in two of our last three fiscal years. However, this exemption was no longer available due to the decline of our Common Stock price.

On October 31, 2016, the Company entered into a dealer-manager agreement (the "Dealer-Manager Agreement") with Maxim, to engage Maxim as dealer-manager for the Maxim Rights Offering. On October 31, 2016, the Company distributed to holders of its Common Stock and to holders of its convertible notes, at no charge, non-transferable subscription rights to purchase units. Each unit consisted of one share of Common Stock and one tradeable warrant representing the right to purchase one share of Common Stock ("Tradeable Warrants").

In the Maxim Rights Offering, holders received two subscription rights for each share of Common Stock, or each share of Common Stock underlying our convertible notes owned on the record date, October 21, 2016. Subscribers whose subscriptions otherwise would have resulted in their beneficial ownership of more than 4.99% of Common Stock could elect to receive, in lieu of shares of Common Stock in excess of that threshold, pre-funded warrants to purchase the same number of shares of Common Stock for $0.01 ("Pre-Funded Warrants"), and the subscription price per unit consisting of a Pre-Funded Warrant in lieu of a share of Common Stock was reduced by the $0.01 exercise price, however no Pre-Funded Warrants were sold in the Maxim Rights Offering.

On November 1, 2016, we were notified by the NYSE American that NYSE Regulation had accepted our plan to regain compliance with the NYSE American's continued listing standards of the NYSE American Company Guide by February 15, 2018, subject to periodic review by the NYSE American for compliance with the initiatives set forth in the plan. We were notified by the NYSE American that if we were not in compliance with the continued listing standards by February 15, 2018, or if we do not make progress consistent with the plan during the plan period, the NYSE Regulation staff would initiate delisting proceedings.

The Maxim Rights Offering closed on November 14, 2016. The units were priced at $0.75 per unit with gross proceeds from the Maxim Rights Offering of approximately $3.8 million and the net proceeds from the Maxim Rights Offering of approximately $2.5 million after deducting fees and expenses payable to Maxim, and after deducting other expenses payable by us and excluding any proceeds received upon exercise of any Tradeable Warrants issued in the offering. The Tradeable Warrants associated with the equity raised were subject to an analysis that resulted in the Tradeable Warrants being recorded as equity with the Common Stock in stockholder's equity.

After failing to raise the amount of capital we hoped to raise in the Maxim Rights Offering, in order to explore potential strategic alternatives, on December 13, 2016, we formed the Strategic Committee. The purpose of the Strategic Committee has been to evaluate the Company's performance of its obligations to its institutional lenders, holders of its convertible debt securities and other creditors, to review potential reorganization and/or restructuring or similar transactions with such parties, to review, evaluate, and negotiate mergers, acquisitions, investments or dispositions of material assets or a material portion of any business and to report its conclusions and recommendations to the Board, as appropriate. The Strategic Committee consists of Messrs. Deedrick, Mazzocchi, Timko and Buckman, each of whom is an independent director. Mr. Deedrick serves as the Chairman of the Strategic Committee.

Effective January 13, 2017, due to our inability to pay cash interest due on the Notes under the Indenture and the 2016 Notes, we issued an additional $1,627,145 aggregate principal amount of convertible senior unsecured notes in a private placement to OrbiMed and ROS (the "2017 Notes" and, together with the 2016 Notes, the "Additional Notes"). The proceeds were utilized to pay interest due on both the Notes under the Indenture and the 2016 Notes on January 15, 2017.

On February 13, 2017, the Company engaged Alvarez & Marsal Securities, LLC ("A&M") to act as its financial advisor with respect to evaluating and pursuing a potential restructuring, financing or sale of the Company.

In March 2017, in connection with their audit for the year ended December 31, 2016, EKS&H LLLP, the Company's independent registered public accounting firm, concluded that, due to the Company's recurring losses from operations and the fact that the Company has operational and financial uncertainties that raise substantial doubt about its ability to continue as a going concern, it was necessary for EKS&H to include an emphasis of matter paragraph regarding going concern in their audit opinion.

In May 2017, we and representatives of OrbiMed and ROS began discussing various strategic transactions, including the structure of a potential conversion or exchange of the Notes.

On May 8, 2017, the Company entered into an agreement (the "CRO Agreement") with Aurora Management Partners Inc. ("Aurora"). Pursuant to the CRO Agreement, David Baker serves as Chief Restructuring Officer of the Company (the "CRO"). The CRO and Aurora personnel, referred to as Deputy Restructuring Officers, assisting on this engagement report to the Strategic Committee and provide periodic updates on progress made in fulfilling the scope of services.

On May 12, 2017, the Company entered into an amendment to the Credit Facility with OrbiMed and ROS pursuant to which it borrowed an additional $15 million from OrbiMed and ROS and used such funds to pay off all obligations under the LSA with SVB and for working capital purposes. Throughout 2017, due to its inability to pay cash interest due thereunder, the Company has entered into various amendments and waivers to the Indenture, the Credit Facility and the Notes to defer interest owed under such obligations and to waive defaults under covenants in such documents.

On May 26, 2017, our Board engaged the law firm of Stoel Rives LLP ("Stoel Rives") as independent counsel for its services in representing the Board and the Strategic Committee. On May 30, 2017, OrbiMed and ROS filed a Schedule 13D disclosing that they were engaged in discussions with the Company regarding possible conversion or exchange of some or all of the Notes into Common Stock.

Throughout the months of June and July 2017, we and representatives of OrbiMed and ROS continued discussing the potential structure and terms of possible transactions, including the potential exchange rate for the Notes as it related to the then-current trading price of the Common Stock. The parties considered converting the 2017 Notes at the $0.7589 per share conversion rate provided thereunder in the Tier 1 Transaction and exchanging the remaining Notes for Common Stock in the Tier 2 Transaction at a rate of $0.60 per share (which, at the time, did not take into account a potential reverse stock split). This exchange price was approximately 13% higher than $0.52 per share, which was the

closing price on May 30, 2017, the date on which OrbiMed and ROS first disclosed their discussions with the Company regarding such potential transactions. Key factors leading to our decision to pursue the Transactions were the ability of the Note conversions and exchanges and the subsequent Private Placement discussed in this Proxy Statement to reform our capital structure, free up cash flow and provide financial support for future operations.

On July 28, 2017, Duff & Phelps, LLC ("Duff & Phelps") was retained as an independent financial advisor to the Board and the Strategic Committee to opine as to whether the conversion price for the Notes, in connection with the Tier 2 Transaction, was fair to the public stockholders of the Company, from a financial point of view.

In the following months, the parties and their legal counsel prepared and negotiated the terms of the definitive documentation for the Transactions. During this period, the Strategic Committee considered other potential strategic alternatives, but did not believe any alternative transactions were viable. The Strategic Committee, in cooperation with the Company's professional advisors, undertook a market check to ensure that the Transactions described in this Proxy Statement were in the best interests of the Company and its stockholders. The Company and its advisors engaged a number of strategically selected companies to assess their interest in consummating a transaction with the Company that would have a value in excess of the restructuring transaction contemplated in the Restructuring Agreement. The parties were selected based on a combination of factors including experience in the industry and ability to consummate a transaction based on timeline and financial capacity. Of the parties contacted, none expressed interest in pursuing further discussions.

During this period, we also sought guidance from the NYSE American regarding several aspects of the Transactions to gauge whether the completion of such transactions would bring the Company back in compliance with NYSE American guidelines. The NYSE American informed us that completion of such transactions would bring us back in compliance with NYSE American continued listing standards but, unless we were in compliance with such standards by February 15, 2018, we would be delisted from NYSE American. In light thereof, we continued negotiations with OrbiMed and ROS on the Transactions, including discussions regarding a potential reverse stock split in order to increase the trading price of our Common Stock on the NYSE American, with the goal of consummating the Tier 2 Transaction by February 15, 2018 in order to be in compliance with NYSE American continued listing standards and remaining listed on NYSE American.

On December 4, 2017, the Company provided A&M with written notice that it had elected to terminate its engagement with A&M, effective immediately.

On December 26, 2017, the Board held a meeting to discuss the preliminary terms and conditions of the Restructuring Agreement. Representatives of Ballard Spahr LLP, counsel to the Company ("Ballard Spahr") made a presentation to the Board, which included all of the members of the Strategic Committee, regarding the preliminary terms and conditions of the Restructuring Agreement and Stoel Rives participated in the call in its capacity as counsel to the Board. Representatives from Duff & Phelps reviewed with the Board its fairness analysis and responded to questions from the Board.

On January 10, 2018, the Board and the Strategic Committee held a meeting to discuss the final terms and conditions of the Restructuring Agreement. Representatives of Ballard Spahr discussed with the Board and the Strategic Committee the proposed final terms and conditions of the Restructuring Agreement and Stoel Rives participated in the call in its capacity as counsel to the Board. Representatives from Duff & Phelps delivered its written opinion to the Strategic Committee and the Board that, as of that date, and based upon and subject to the assumptions, limitations and qualifications contained in its opinion, the conversion of the Notes into Common Stock at the Conversion Price (as defined below) in connection with the Tier 2 Transaction is fair, from a financial point of view, to the public stockholders of the Company. See the section of this Proxy Statement titled *Opinion of the Company's Financial Advisor* beginning on page 20. Thereafter, our Board and the Strategic Committee unanimously approved the Restructuring Agreement and the Transactions, and on January 11, 2018, the parties signed the Restructuring Agreement. The terms of the key transaction documents are described in detail in the section of this Proxy Statement titled *Description of the Transactions* beginning on page 12.

**DESCRIPTION OF THE TRANSACTIONS**

**Restructuring Agreement**

Under the Restructuring Agreement, the Noteholders agreed to the restructuring of the Company and the exchange and conversion of their Notes in a series of transactions. Below is a summary of the material terms of the Restructuring Agreement. The discussion of the Transactions and the Restructuring Agreement is qualified in its entirety by reference to the Restructuring Agreement, which is attached to this proxy statement as **Annex A**. This summary does not purport to be complete and may not contain all of the information about the Restructuring Agreement that is important to you.

**Actions Required to Be Completed Prior to or Simultaneously with the Execution of the Restructuring Agreement.**

In addition to other standard obligations and approvals that the Company needed to complete under the terms of the Restructuring Agreement, the following actions were required to be completed before or at the same time as the parties executed the Restructuring Agreement:

***Fairness Opinion***

Prior to the execution of the Restructuring Agreement, the Board received the fairness opinion of Duff & Phelps, which stated that as of January 10, 2018, and subject to the assumptions, limitations and qualifications contained therein, the exchange rate of 138.8889 shares per $1,000 principal amount of notes, for an exchange price of $7.20 is fair to the public stockholders of the Company, from a financial point of view, as an exchange rate for the Notes. For more details, please see the section in this Proxy Statement titled *Opinion of the Company's Financial Advisor* on page 20.

***Support Agreement***

On January 11, 2018, the Noteholders, the Company's executive officers and directors and certain of the Company's stockholders (collectively the "Support Equityholders"), who, as of such date, held approximately 24.8% of the

outstanding Common Stock, entered into a support agreement (the "Support Agreement") simultaneously with the execution of the Restructuring Agreement, which is attached to this Proxy Statement as **Annex B**. Under the Support Agreement, the Support Equityholders agreed to vote their shares of Common Stock in favor of the approval of: (i) the amendment to the Company's certificate of incorporation and issuance of Common Stock pursuant to the exchange of the Notes under the Tier 2 Transaction, (ii) any proposal to adjourn or postpone the meeting to a later date, if there are not sufficient votes for the approval of the such proposals on the date on which such meeting is held, and (iii) any other proposal included in this Proxy Statement that relates to the consummation of the transactions contemplated by the Restructuring Agreement that the Board recommended the stockholders approve. The Support Equityholders also appointed OrbiMed and ROS as attorney-in-fact and proxy to vote all applicable shares of the Support Equityholders consistent with the provisions of the Support Agreement. The Support Equityholders made standard representations and warranties related to their ownership of Common Stock.

**Actions Required to Be Completed Prior to the Closing of the Restructuring Agreement.**

In addition to other standard obligations, approvals and securities filings that the Company needs to complete under the terms of the Restructuring Agreement, the following actions are required to be completed between the signing and the closing of the Transactions:

***2017 Notes Amendment***

As a condition to the closing of the Transactions, on or prior to the Record Date, the Company, ROS and OrbiMed are required to enter into an amendment to the 2017 Notes (the "2017 Notes Amendment"), which will amend the 2017 Notes by removing the limitations on stock ownership that prevent any holder or any of its affiliates from effecting a conversion of the 2017 Notes if such conversion would result in the holder or any of its affiliates beneficially owning in excess of 9.99% of the then outstanding shares of Common Stock and providing that the Conversion Consideration (as defined therein) shall be payable upon all outstanding principal amount plus accrued and unpaid interest of the 2017 Notes. The 2017 Notes Amendment is required to enable OrbiMed and ROS to convert the 2017 Notes pursuant to the Tier 1 Transaction.

***Success Bonuses***

The Restructuring Agreement contemplates that certain success bonuses be agreed to following the entry into the Restructuring Agreement, which are as follows: (i) up to four senior members of management will each be paid a Transaction success bonus of $35,000 in cash and (ii) Carl O'Connell, the Chief Executive Officer of the Company, will be paid a Transaction success bonus of $70,000 in cash, in each case, with half paid within 45 days following the closing of the Transactions and half paid within 90 days following the closing of the Transactions, provided they are employed by the Company through the time of the payment of the bonus. Additional retention bonuses for these members of management may be negotiated within 90 days following the closing of the Transactions.

**Actions Required to Be Completed On the Closing of the Restructuring Agreement.**

In addition to other standard obligations, approvals and securities filings that the Company will need to complete under the terms of the Restructuring Agreement, the following actions are required to be completed or delivered by or at the final closing of the Transactions:

***Stockholder Approval***

We are required to hold the Special Meeting to which this Proxy Statement relates in order to obtain stockholder approval for all applicable Proposals related to the Transactions, including Proposals 1, 2 and 3.

***2016 Notes Amendment***

As a condition to the closing of the Transactions, the Company, ROS and OrbiMed are required to enter into an amendment to the 2016 Notes (the "2016 Notes Amendment"), which will amend the 2016 Notes by clarifying that the restriction that prevents any holder or any of its affiliates from effecting a conversion thereof if such conversion would result in the holder or any of its affiliates beneficially owning in excess of 9.99% of the then outstanding shares of Common Stock shall not be applicable to the Tier 2 Transaction. The 2016 Notes Amendment is required to enable OrbiMed and ROS to exchange the 2016 Notes pursuant to the Tier 2 Transaction.

***Indenture Amendment***

As a condition to the closing of the Transactions, the Company and Wilmington Trust, National Association (the "Trustee"), are required to enter into an amendment to the Indenture (the "Indenture Amendment"), which will amend the Indenture by clarifying that the restriction that prevents any holder or any of its affiliates from effecting a conversion thereof if such conversion would result in the holder or any of its affiliates beneficially owning in excess of 9.99% of the then outstanding shares of Common Stock shall not be applicable to the Tier 2 Transaction. The Indenture Amendment is required to enable the Noteholders to exchange their Notes pursuant to the Tier 2 Transaction.

***Charter Amendment***

Pursuant to the terms of the amendment to the Company's Certificate of Incorporation and following stockholder approval, the Company will effect a reverse stock split at a ratio of 1-for-12, change the number of authorized shares of Common Stock and preferred stock available for issuance and make such other changes as are described below. See Proposal 2 of this Proxy Statement for further description of such amendment to the Certificate of Incorporation.

***Registration Rights Agreement***

As a condition to the closing of the Transactions, we are required to enter into a Registration Rights Agreement (the "Registration Rights Agreement") with the Noteholders. Upon demand by the Noteholders, the proposed Registration Rights Agreement requires us to, among other things, file with the SEC a shelf registration statement (which, initially, will be on Form S-1 and, as soon as we are eligible, will be on Form S-3) covering the resale, from time to time, of the Common Stock issuable upon conversion or exchange of the Notes or issued in the Private Placement within 90 days of such demand and use our best efforts to cause the shelf registration statement to become effective under the Securities Act no later than the 180th day after such demand.

***Investor Rights Agreement***

As a condition to the closing of the Transactions, we are required to enter into an Investor Rights Agreement (the "Investor Rights Agreement") with OrbiMed, ROS, PWPI and PWIMF. Under the proposed Investor Rights Agreement, ROS and OrbiMed are permitted to nominate a majority of the directors and designate the chairperson of the Board at subsequent annual meetings, as long as they maintain an ownership threshold in the Company of at least 40% of the then outstanding Common Stock (the "Ownership Threshold"). If ROS and OrbiMed are unable to maintain the Ownership Threshold, the Investor Rights Agreement contemplates a reduction of nomination rights commensurate with the Company ownership interests.

For so long as the Ownership Threshold is met, the Company must obtain the approval of ROS and OrbiMed to proceed with the following actions: (i) issue new securities; (ii) incur over $250,000 of debt in a fiscal year; (iii) sell or transfer over $250,000 of assets or businesses of the Company or its subsidiaries in a fiscal year; (iv) acquire over $250,000 of assets or properties in a fiscal year; (v) make capital expenditures over $125,000 individually, or $1,500,000 in the aggregate during a fiscal year; (vi) approve the Company's annual budget; (vii) hire or terminate the Company's chief executive officer; (viii) appoint or remove the chairperson of the Board; and (ix) make, loans to, investments in, or purchase, or permit any subsidiary to purchase, any stock or other securities in another entity in excess of $250,000 in a fiscal year. As long as the Ownership Threshold is met, the Company may not increase the size of the Board beyond seven directors without the approval of a majority of the directors nominated by ROS and OrbiMed.

The Investor Rights Agreement grants OrbiMed, ROS, PWPI and PWIMF the right to purchase from the Company a pro rata amount of any new securities that the Company may propose to issue and sell. The Investor Rights Agreement may be terminated (a) upon the mutual written agreement of all the parties, (b) upon written notice of the Company, ROS or OrbiMed if ROS and OrbiMed's ownership percentage of the then outstanding Common Stock is less than 10%, or (c) upon written notice of ROS and OrbiMed. PWPI and PWIMF's right to purchase from the Company a pro rata amount of any new securities will also terminate at such time as their aggregate ownership

percentage of the then outstanding Common Stock is less than 8.5%.

***Credit Agreement Amendment***

As a condition to the closing of the Transactions, we, ROS and OrbiMed are required to enter into an amendment to the Credit Facility which will amend the Credit Facility as follows:

(a) Through December 31, 2018, the Company will have the option at its sole discretion (i) to pay "payment-in-kind" ("PIK") interest at LIBOR plus 12% or (ii) pay cash interest at LIBOR plus 10%.

(b) Beginning January 1, 2019 through June 30, 2019, the Company will have the option at its sole discretion to either (i) pay PIK interest at LIBOR plus 15% or (ii) pay cash interest at LIBOR plus 10%.

(c) Beginning July 1, 2019 through the maturity date of the Credit Facility, the Company will pay cash interest at LIBOR plus 10%.

(d) All prepayment or repayment fees under the Credit Facility will be reduced from 9% to 1%.

(e) The following financial covenants will be revised as follows:

(i) The Company will be required to maintain a minimum Adjusted EBITDA as follows:

| Testing Period | Minimum Adjusted EBITDA |
|---|---|
| Three quarter period ended September 30, 2018 | $2.2 million |
| Four quarter period ended December 31, 2018 | $4.0 million |
| Four quarter period ended March 31, 2019 | $5.5 million |
| Four quarter period ended June 30, 2019 | $7.0 million |
| Four quarter period ended September 30, 2019 | $8.5 million |
| Four quarter period ended December 31, 2019 | $10 million |
| Four quarter period ended March 31, 2020 | The greater of (a) $10 million or (b) 75% of projected Adjusted EBITDA for such period pursuant to projections, based on good faith estimates and assumptions believed to be reasonable at the time made, delivered to ROS no later than December 31, 2019 |
| Four quarter period ended June 30, 2020 | The greater of (a) $10 million or (b) 75% of projected Adjusted EBITDA for such period pursuant to projections, based on good faith estimates and assumptions believed to be reasonable at the time made, delivered to ROS no later than December 31, 2019 |

(ii) The minimum liquidity of the Company shall be $500,000 at all times.

(iii) The minimum revenue base covenant will not be applicable for quarters ended after December 31, 2017.

(iv) The Company will maintain a consolidated senior leverage ratio no greater than as follows:

| Four Fiscal Quarters Ended | Consolidated Senior Leverage Ratio |
|---|---|
| June 30, 2019 | 10.00:1.00 |
| September 30, 2019 | 10.00:1.00 |
| December 31, 2019 | 8.00:1.00 |
| March 31, 2020 | 7.00:1.00 |
| June 30, 2020 | 7.00:1.00 |

***Private Placement***

The Investors have also agreed to purchase from the Company in a private placement, upon terms and conditions reasonably satisfactory to the Investors and the Company, simultaneously with the consummation of the Tier 2 Transaction, an aggregate of $6,809,887 of Common Stock at a price per share of $7.20 (which, on a pre-reverse stock split basis, equates to a price per share of $0.60).

***Rights Offering***

Following the consummation of the Tier 2 Transaction and the Private Placement, the Restructuring Agreement requires us to launch a rights offering to allow stockholders of the Company to purchase Common Stock at the same price per share as the Tier 2 Transaction and the Private Placement.

**Transfer Restrictions on Securities**

The Restructuring Agreement restricts the transfer, sale or assignment of any Notes of a Noteholder between the signing and final closing of the Restructuring Agreement. The Restructuring Agreement does not restrict a Noteholder from transferring shares of Common Stock issued upon conversion or exchange of the Notes.

**Covenants of the Company**

The Company agreed to several standard covenants under the Restructuring Agreement. Until the final closing, the Company agrees to operate its businesses in the ordinary course of business based on past historic practices and operations, but also taking into account the Transactions. Without the prior written consent of the Investors, we may not engage in several specified actions, including, but not limited to the following: issue, sell or pledge additional securities; split, reclassify or otherwise acquire any of our outstanding securities; declare dividends; purchase, sell or encumber material properties or assets; acquire any business; amend our organizational documents; make certain employment compensation or benefit changes; prepay, incur or assume any indebtedness; redeem any capital stock or related interests; make certain changes in accounting methods; make any changes to tax elections or take certain other actions related to taxes; enter into any real property leases or fail to renew any lease of real property; enter into any contract that is material or could conflict with the Transactions; amend or terminate any material contract; pay, discharge, settle or satisfy any claims, liabilities or obligations; take any action that would conflict with or delay the Transactions; enter into any collective bargaining agreement or terminate the employment of any person that has an employment, severance or similar agreement with the Company; discharge or satisfy any lien or pay any obligation or liability; fail to maintain sufficient insurance coverage; commence any bankruptcy, dissolution, insolvency or similar proceeding; create additional subsidiaries of the Company; engage in any business other than the business the Company currently conducts; or commit to do any of the foregoing, in each case, subject to certain exceptions.

We also agreed to obtain, by the closing of the Transactions, prepaid directors' and officers' liability insurance policies in respect of acts or omissions occurring at or prior to the closing for six years from the closing, covering each existing member of the Board on terms with respect to such coverage and amounts no less favorable than those of such policies in effect on the date of the Restructuring Agreement. Without the prior written consent of the Investors, we may not expend in excess of 300% of the amount paid by us for coverage for the most recently completed 12-month period prior to the date of the Restructuring Agreement.

Prior to the receipt of the stockholder approval solicited under this Proxy Statement, the Company may initiate, solicit or make certain proposals and engage in or participate in any discussions or negotiations with any persons with respect to potential acquisition proposals of the Company. Upon receipt of such an acquisition proposal, the Company agrees to disclose all applicable information to the Noteholders.

**Representations and Warranties**

In the Restructuring Agreement, we made customary representations and warranties to the Noteholders relating to us, our business, and the shares of our Common Stock to be issued to the Noteholders. These representations and warranties were made only for purposes of that agreement and as of specific dates, are solely for the benefit of the parties to the Restructuring Agreement, may be subject to limitations agreed upon by the parties (including being

qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties to the Restructuring Agreement instead of establishing these matters as facts), and may be subject to standards of materiality applicable to the parties that differ from those applicable to investors.

Investors should not rely on the representations, warranties or covenants or any description thereof as characterizations of the actual state of facts or condition of the Company or any of their respective subsidiaries or affiliates. The representations, warranties and covenants made in the Restructuring Agreement by the Company and the Noteholders were made solely by the parties to, and for the purposes of, the Restructuring Agreement and as of specific dates and were qualified and subject to important limitations agreed to by the Company and the Noteholders in connection with negotiating the terms of the Restructuring Agreement. In particular, in your review of the representations and warranties contained in the Restructuring Agreement and described in this summary, it is important to bear in mind that the representations and warranties were negotiated with the principal purpose of establishing the circumstances in which a party to the Restructuring Agreement may have the right not to consummate the Transactions if the representations and warranties of another party prove to be untrue due to a change in circumstance or otherwise, and allocating risk among the parties to the Restructuring Agreement, rather than establishing matters as facts. The representations and warranties may also be subject to a contractual standard of materiality different from those generally applicable to stockholders and reports and documents filed with the SEC and in some cases were qualified by the matters contained in the confidential disclosure schedule that the Company provided to the Noteholders in connection with the Restructuring Agreement, which disclosures were not reflected in the Restructuring Agreement.

Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Restructuring Agreement, which subsequent information may or may not be fully reflected in public disclosures by the Company or their subsidiaries or affiliates. The provisions of the Restructuring Agreement, including the representations and warranties, should not be read alone, but instead should only be read together with the information provided elsewhere in this Proxy Statement, as well as the periodic and current reports and statements that the Company files with the SEC. For information on how to view or obtain copies of these documents, please see the section of this Proxy Statement titled *Additional Information* on page 60.

**Termination**

The Restructuring Agreement may be terminated as follows:

- by written consent of the Company and the Investors;
- by any party if the closing is not consummated by May 15, 2018; provided that the terminating party has not been a principal cause of the failure to close due to its failure to perform obligations under the Restructuring Agreement;
- by any party, if certain legal restraints preventing the Transactions have occurred and have become final and nonappealable;
- by the Investors, if the stockholder approval under this Proxy Statement is not obtained;
- by the Investors, if any of the Company or the Consenting Noteholders materially breach any provision of the Restructuring Agreement that would give rise to the failure of an Investor closing condition and is not cured within 10 days after receipt of written notice;
- by the Company, if the Investors or the Consenting Noteholders materially breach any provision of the Restructuring Agreement that would give rise to the failure of a Company closing condition and is not cured within 10 days after receipt of written notice;
- solely with respect to its obligations under the Restructuring Agreement, by any Consenting Noteholder, if any of the Company or the Investors materially breach any provisions of the Restructuring Agreement that would give rise to the failure of a Consenting Noteholder closing condition and is not cured within 10 days after receipt of written notice; or

· by the Company, upon entering into a definitive agreement with respect to a superior acquisition proposal.

**Indemnification**

The Company agrees to indemnify certain officers and representatives of the Company and certain affiliates and representatives of the Noteholders for all damages arising from any losses based upon any act related to the Company, the Transactions, the Restructuring Agreement or any related documents.

**Fees and Expenses**

The Company agreed under the Restructuring Agreement to pay (i) all reasonable costs and expenses that it incurs with respect to the Transactions and (ii) at the closing of the Tier 2 Transaction and the Private Placement, all documented costs and expenses presented for payment by the counsel and professionals retained by each Noteholder (provided that such fees shall not exceed $10,000 in the aggregate for any Consenting Noteholder).

**RECOMMENDATION OF THE BOARD OF DIRECTORS OF THE COMPANY**

At a meeting of the Board held on January 10, 2018, the Board and the Strategic Committee approved the Restructuring Agreement and the Transactions by a unanimous vote of all directors present, and the Board and the Strategic Committee recommend that you vote your shares "FOR" the approval of the issuance of shares of Common Stock for purposes of Section 713(a) and 713(b) of the NYSE American Company Guide, "FOR" the amendment to our certificate of incorporation (which includes the reverse stock split) and "FOR" the approval of the election of the members to the Board.

Our Board and the Strategic Committee have, by the unanimous vote of all directors voting:

- determined that the Restructuring Agreement and the Transactions are advisable and in the best interests of the Company and its stockholders;
- determined that the Transactions are fair to the stockholders of the Company;
- adopted resolutions approving the Restructuring Agreement and the Transactions; and
- resolved to recommend that the stockholders approve the issuance of shares of Common Stock for purposes of Section 713(a) and 713(b) of the NYSE American Company Guide, the amendment to our certificate of incorporation (which includes the reverse stock split) and the election of the members to the Board.

In reaching its decision, the Board and the Strategic Committee evaluated the Restructuring Agreement and the Transactions in consultation with our management and our legal and financial advisors, including Stoel Rives, the independent legal advisor to the Strategic Committee. In addition, the Board and the Strategic Committee considered the fairness analysis provided by Duff & Phelps to the Board and the Strategic Committee.

The reasons considered by the Board and the Strategic Committee in favor of approving the Restructuring Agreement and the Transactions included the following (not necessarily in order of relative importance):

- our historical inability, despite our extended efforts over the past two years, to raise financing or to otherwise realize value for our business operations due to our current capital structure;

- our inability to satisfy our current debt obligations under the Notes, the Credit Facility and the Indenture, and the likelihood that failure to obtain stockholder approval of the Transactions could lead to an acceleration of our indebtedness owed under the Indenture, the Additional Notes and the Credit Facility, which would likely force us to file for bankruptcy;

- the substantial doubt about our ability to continue as a going concern and the likelihood that, if the Transactions are not consummated, the Company will be unable to raise additional financing and that the resulting lack of liquidity may require the Company to declare bankruptcy;

- the likely effect of bankruptcy on holders of Common Stock and on the Company;

- the likelihood that, if the Transactions are not consummated, the Company will be delisted from the NYSE American, it will be difficult for the Company to be relisted on the NYSE American and the resultant effects on the liquidity of the Common Stock;

- our efforts to review, evaluate and negotiate mergers, acquisitions, investments or dispositions of material assets, or other strategic alternatives, which did not result in the signing or consummation of a transaction on terms that we believed would be beneficial to our stockholders;

- the fact that, under the Restructuring Agreement, the Company may initiate, solicit or make certain proposals and engage in or participate in any discussions or negotiations with any persons with respect to potential acquisition proposals of the Company, and if such discussions result in a proposal that the Board determines in good faith is a superior proposal, the Board may adopt such superior proposal without incurring a break-up fee;

- the current and historical market prices of the Common Stock;

- the opinion of Duff & Phelps, dated January 10, 2018, to the Board as to the fairness, from a financial point of view, of the conversion of the Notes into Common Stock at the Conversion Price (as defined below) in connection with the Tier 2 Transaction, to the public stockholders of the Company, based upon and subject to the assumptions, limitations and qualifications contained in its opinion;

- the likelihood that the Restructuring Agreement and the Transactions would be consummated; and

- the commitment by OrbiMed and ROS to provide $6.8 million of additional capital in the Private Placement.

The Board and the Strategic Committee also considered the following negative factors associated with the Restructuring Agreement and the Transactions:

- if the Transactions are consummated, after the Investors fully convert and exchange the Notes and participate in the Private Placement pursuant to the terms and conditions of the Restructuring Agreement, the Investors will own, in the aggregate, approximately 70.4%, and the Noteholders would own, in the aggregate, approximately 88.5%, of our outstanding Common Stock, and our other non-Noteholder stockholders of the Company, who currently own approximately 95.7% of the outstanding Common Stock, will be substantially diluted from an ownership standpoint and will own approximately 11.3% of our outstanding Common Stock;

- if the Transactions are consummated, the Investors will control a majority of our Common Stock, and as a result, the Investors will have the voting power to elect all of the members of our Board and determine the outcome of all matters requiring stockholder approval, thereby controlling our management and affairs;

- the possibility that the Investors' interests may not always coincide with the interests of our other stockholders and that they may act in a manner that advances their individual interests and not necessarily those of other stockholders;

- the possibility that the Restructuring Agreement may be terminated and that the Transactions may not be consummated and thus that the benefits thereof may not be realized;

- the possibility that the consummation of the Transactions may be delayed, resulting in the delisting of the Company from the NYSE American, and the resultant effects on the liquidity of the Common Stock;

- the fact that the Restructuring Agreement contains significant restrictions on our ability to conduct our business prior to the consummation of the Transactions; and

· the potential of litigation in connection with the Restructuring Agreement and the Transactions.

In the judgment of the Board and the Strategic Committee, however, these potential risks were favorably offset by the potential benefits of the Restructuring Agreement and the Transactions, including those described above and below.

**Opinion of the Company's Financial Advisor**

Pursuant to an engagement letter dated July 28, 2017 and the Addendum thereto dated December 15, 2017 (collectively, the "Engagement Letter"), the Company retained Duff & Phelps, to serve as an independent financial advisor to its Board and to render an opinion to the Board and the Strategic Committee as to whether the conversion price for the Notes, in connection with the Tier 2 Transaction, was fair, from a financial point of view, to the public holders of the Common Stock. The Company retained Duff & Phelps based on Duff & Phelps' qualifications, reputation and experience in providing fairness opinions, and its experience in valuing companies generally, and in the healthcare and medical device industries specifically. Duff & Phelps is a premier global valuation and corporate finance advisor that is regularly engaged to provide financial advisory services, including fairness opinions, in connection with mergers and acquisitions, leveraged buyouts, going-private transactions and recapitalization transactions.

Duff & Phelps was engaged to determine whether the $0.60, or $7.20 after giving effect to the Company's 1:12 reverse stock split, per share conversion price (the "Conversion Price") for the $70.238 million of aggregate principal plus any accrued and unpaid interest of the Notes, in connection with the Tier 2 Transaction, is fair, from a financial point of view, to the public holders of the Common Stock.

On December 26, 2017, representatives from Duff & Phelps reviewed with the Board, which included all of the members of the Strategic Committee, its fairness analysis of the Tier 2 Transaction and responded to questions from the Board. On January 10, 2018, at the request of the Board and the Strategic Committee, Duff & Phelps delivered its written opinion to the Strategic Committee and the Board that, as of January 10, 2018, and based upon and subject to the assumptions, limitations and qualifications contained in its opinion, the conversion of the Notes into Common Stock at the Conversion Price in connection with the Tier 2 Transaction is fair, from a financial point of view, to the public holders of the Common Stock. Duff & Phelps has consented to the reproduction of its opinion in this Proxy Statement.

Duff & Phelps' opinion did not address the fairness of any transactions related to the Transactions other than the Tier 2 Transaction or any other transaction in connection with the Restructuring Agreement, including but not limited to the Private Placement, the Tier 1 Transaction or the reverse stock split.

**The full text of Duff & Phelps' written opinion, dated January 10, 2018, which sets forth, among other things, certain assumptions made, certain matters considered and the limitations with respect to the review undertaken by Duff & Phelps in connection with the Tier 2 Transaction, is attached as Annex C to this Proxy Statement and is incorporated herein by reference. We urge you to read Duff & Phelps' opinion carefully and in its entirety.**

Duff & Phelps' opinion was provided for the information and assistance of the Strategic Committee and the Board in connection with its consideration of the Transactions and the Restructuring Agreement and (i) does not address the merits of the underlying business decision to enter into the Transactions and the Restructuring Agreement versus any alternative strategy or transaction, (ii) does not address any transaction related to the Transactions and the Restructuring Agreement, (iii) is not a recommendation as to how the Strategic Committee, the Board or any stockholder of the Company should vote or act with respect to any matters relating to the Transactions and the Restructuring Agreement, or whether to proceed with the Transactions and the Restructuring Agreement or any related transaction, and (iv) does not indicate that the Conversion Price for the Notes is the best exchange rate possibly attainable under any circumstances. The decision as to whether to proceed with the Transactions and the Restructuring Agreement or any related transaction may depend on an assessment of factors unrelated to the financial analysis on which Duff & Phelps' opinion was based.

Duff & Phelps' opinion was only one of the factors taken into consideration by the Strategic Committee and the Board in making its determination with respect to the Transactions and the Restructuring Agreement. Duff & Phelps' opinion should not be construed as creating any fiduciary duty on the part of Duff & Phelps to the Strategic Committee, the Board or any other party. Duff & Phelps has not undertaken, and is under no obligation, to update, revise, reaffirm or withdraw its opinion, or otherwise comment on or consider events occurring or coming to its attention after the date of its opinion.

The information set forth below summarizes the material financial and comparative analyses performed by Duff & Phelps, but does not purport to be a complete description of the financial analyses performed by Duff & Phelps or the data considered by it in connection with its opinion. The preparation of a fairness opinion involves various subjective determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to particular circumstances. In arriving at its opinion, Duff & Phelps considered a number of analytical methodologies. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the strengths, weaknesses and applicability of any particular technique. While the conclusions reached in connection with each analysis were considered carefully by Duff & Phelps in arriving at its opinion, Duff & Phelps did not consider it practicable to, nor did it attempt to, assign relative weights to the individual analyses and specific factors considered in reaching its opinion. The conclusion reached by Duff & Phelps was based on all analyses and factors, taken as a whole, and also on the application of Duff & Phelps' own experience and judgment. This conclusion may involve significant elements of subjective judgment and qualitative analysis. No one method of analysis should be regarded as critical to the overall conclusion. Accordingly, Duff & Phelps believes that its analyses must be considered as a whole, and that selecting portions of its analyses and of the factors considered by it, without considering all analyses and factors, could create a misleading or incomplete view of the evaluation process underlying its opinion.

In connection with its opinion, Duff & Phelps made such reviews, analyses and inquiries as it deemed necessary and appropriate under the circumstances. Duff & Phelps also took into account its assessment of general economic, market and financial conditions, as well as its experience in securities and business valuation in general, and with respect to similar transactions in particular. Duff & Phelps' procedures, investigations and financial analysis with respect to the preparation of its opinion included, but were not limited to, the items summarized below:

1. Duff & Phelps reviewed the following documents provided by the Company:

a. the Company's annual reports and audited financial statements in the Company's Form 10-K filed with the SEC for the calendar years ended December 31, 2015 and December 31, 2016, and the Company's unaudited interim financial statements in the Company's Form 10-Q filed with the SEC for the quarterly period ended September 30, 2017;

b. the Company's pro forma financial information contained in the Company's Form 8-K filed with the SEC for the calendar year ended December 31, 2014;

c. the Company's anticipated corrections to the financial information for the quarters ending March 31, 2017 and June 30, 2017 contained in the Company's Form 8-K filed with the SEC on November 20, 2017, as reflected in the Company's Form 10-Q filed with the SEC for the quarterly period ended September 30, 2017;

d. the Company's unaudited pro forma financial information prepared by management of the Company for the calendar year ended December 31, 2015;

e. the detailed financial projections prepared by management of the Company and provided to Duff & Phelps for the calendar years ending December 31, 2017 through December 31, 2020 (the "Management Projections");

f. a letter dated December 18, 2017 from the Chief Executive Officer and the Deputy Restructuring Officer of the Company to Duff & Phelps, which made certain representations to Duff & Phelps with respect to the Management Projections and the underlying assumptions related thereto (the "Management Representation Letter");

g. the Company's Management Presentation dated March 28, 2017;

h. the Company's Board of Directors Meeting Discussion Materials prepared by A&M dated July 18, 2017;

i. the Company's Board of Directors Meeting Presentation dated December 12, 2017;

j. other internal documents relating to the history, current operations and probable future outlook of the Company;

k. documents related to the Company's indebtedness, including: (i) Bacterin International Holdings, Inc.'s (n/k/a the Company) $65,000,000 indenture for the Notes dated as of July 31, 2015 and the subsequent amendments thereto; (ii) the $995,700 and $42,856.59 promissory notes issued by the Company to ROS, and the $564,300 and $24,288.41 promissory notes issued by the Company to OrbiMed for the 2017 Notes dated January 17, 2017; and (iii) the amended and restated term loan credit agreement dated July 27, 2015 by and among Bacterin International, Inc., ROS and OrbiMed and the subsequent amendments thereto;

l. the December 20, 2017 draft of the Amended and Restated Certificate of Incorporation of Xtant Medical Holdings, Inc.; and

m. documents related to the Transactions, including the January 8, 2018 draft Restructuring and Exchange Agreement by and among the Company, OrbiMed, ROS and the consenting noteholder parties.

2. Duff & Phelps discussed the documents referred to above and the background and other elements of the Transactions with management of the Company.

3. Duff & Phelps reviewed the historical trading price and trading volume of the Common Stock and the publicly traded securities of certain other companies that Duff & Phelps deemed relevant.

4. Duff & Phelps performed certain valuation and comparative analyses using generally accepted valuation and analytical techniques, including a discounted cash flow analysis, an analysis of selected public companies and selected transactions that Duff & Phelps deemed relevant, and an analysis of selected publicly traded debt that Duff & Phelps deemed relevant.

5. Duff & Phelps conducted such other analyses and considered such other factors as Duff & Phelps deemed appropriate.

No limits were placed on Duff & Phelps by the Company, the Strategic Committee or the Board of Directors in terms of the information to which it had access or on the matters it could consider in rendering its opinion.

In performing its analyses and rendering its opinion with respect to the Tier 2 Transaction, Duff & Phelps, with the Company's consent:

1. relied upon the accuracy, completeness, and fair presentation of all information, data, advice, opinions and representations obtained from public sources or provided to it from private sources, including management of the Company, and did not independently verify such information;

2. relied upon the fact that the Strategic Committee, the Board and the Company have been advised by counsel as to all legal matters with respect to the contemplated Transactions and the Restructuring Agreement, including, without limitation, whether all procedures required by law to be taken in connection with the Tier 2 Transaction have been duly, validly and timely taken, and all conditions to the Tier 2 Transaction have been satisfied;

3. assumed that any estimates, evaluations, forecasts and projections furnished to Duff & Phelps by the Company were reasonably prepared by the Company and based upon the best currently available information and good faith judgment of the person at the Company furnishing the same, and Duff & Phelps expresses no opinion with respect to such estimates, evaluations, forecasts and projections or the underlying assumptions;

4. assumed that information supplied and representations made to Duff & Phelps by management of the Company are substantially accurate regarding the Company and the Transactions;

5. assumed that the final versions of all documents provided to Duff & Phelps by the Company and reviewed by Duff & Phelps in draft form and referenced in Section 1.k above conform in all material respects to the drafts provided to Duff & Phelps by the Company and reviewed by Duff & Phelps;

6. assumed that there has been no material change in the assets, liabilities, financial condition, results of operations, business, or prospects of the Company since the date of the most recent financial statements and other information made available to Duff & Phelps by the Company and referenced herein, and that there is no information or facts that would make the information provided by the Company and reviewed by Duff & Phelps and referenced herein incomplete or misleading;

7. assumed that all of the conditions required to implement the Tier 2 Transaction will be satisfied, including, without limitation, the reverse stock split, and that the Tier 2 Transaction will be completed in accordance with the draft documents referenced in Section 1.m above without any amendments thereto or any waivers of any terms or conditions thereof;

8. did not address the fairness of any related transactions, including, without limitation, the loan amendments, the Private Placement, or the reverse stock split; and

9. assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the Transactions and the Restructuring Agreement (including, without limitation, the consent of the Strategic Committee and the Board), will be obtained without any adverse effect on the Company.

In Duff & Phelps' analysis and in connection with the preparation of its opinion, Duff & Phelps has made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the Transactions. To the extent that any of the foregoing assumptions, qualifications and limiting conditions, or any of the facts on which Duff & Phelps' opinion is based prove to be untrue in any material respect, the opinion cannot and should not be relied upon.

Duff & Phelps prepared its analysis as of December 26, 2017 and, at the request of the Board and the Strategic Committee, delivered its written opinion with respect thereto on January 10, 2018. Duff & Phelps' opinion was necessarily based upon market, economic, financial and other conditions as they existed and could be evaluated only as of January 10, 2018, and Duff & Phelps disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting its opinion which may come or be brought to the attention of Duff & Phelps after January 10, 2018.

Duff & Phelps' did not evaluate the Company's solvency or conduct an independent appraisal or physical inspection of any specific assets or liabilities (contingent or otherwise). Duff & Phelps has not been requested to, and did not, (i) initiate any discussions with, or solicit any indications of interest from, third parties with respect to the Notes, the

assets, businesses or operations of the Company, or any alternatives to the Transactions and the Restructuring Agreement, (ii) structure or negotiate the terms or the effect of the exchange rate of the Notes or any part of the Transactions or the Restructuring Agreement and, therefore, Duff & Phelps has assumed that the terms of the Notes Conversion, including, without limitation, the exchange rate of the Notes, are the most beneficial terms, from the Company's perspective, that could, under the circumstances, be negotiated among the parties to the Transactions and the Restructuring Agreement, or (iii) advise the Strategic Committee, the Board or any other party with respect to alternatives to the Transactions or the relative merits of the Transactions.

Duff & Phelps' opinion does not express any opinion as to the market price or value of the Common Stock (or anything else) after the announcement or the consummation of the Transactions.

Duff & Phelps' opinion should not be construed as a valuation opinion, a credit rating, a solvency opinion, an analysis of the Company's credit worthiness, tax advice, accounting advice, or legal advice. Duff & Phelps has not made, and assumes no responsibility to make, any representation, or render any opinion, as to any legal matter.

Duff & Phelps' opinion does not express any opinion with respect to the amount or nature of any compensation to any of the Company's officers, directors, or employees, or any class of such persons, relative to the consideration to be received by the public stockholders of the Company in any the Transactions or other transactions in connection with the Restructuring Agreement, or with respect to the fairness of any such compensation.

Although these paragraphs include some information in tabular format, those tables are not intended to stand alone and must be read together with the full text of each summary and the limitations and qualifications in the Duff & Phelps' opinion.

Valuation Analysis

As part of its analysis, Duff & Phelps' performed an enterprise valuation analysis of the Company using generally accepted valuation methodologies.

***Discounted Cash Flow Analysis***. Duff & Phelps performed a discounted cash flow ("DCF") analysis using the Management Projections for fiscal years 2017 through 2020 to derive indications of total enterprise value. A DCF analysis is designed to provide insight into the intrinsic value of a business based on its projected earnings and capital requirements, as well as the net present value of projected free cash flows as provided by the Company's management in the Management Projections.

In the analysis shown in the table below, Duff & Phelps calculated the projected debt-free, free cash flows of the Company, for the fiscal years 2017 through 2020. After deducting depreciation from EBITDA, Duff & Phelps accounted for the tax effects of the debt-free pre-tax earnings utilizing a 25.0% tax rate, reflecting a reduction in the US statutory tax rate, to calculate net operating profit after taxes ("NOPAT"). Duff & Phelps then calculated the projected debt-free, free cash flows of the Company, by subtracting capital expenditures and changes in average working capital, to account for projected seasonality, from NOPAT. All of the assumptions and estimates used to determine the debt-free, free cash flows of the Company were provided by the Company's management.

Duff & Phelps estimated the value of the Company in 2020, the end of the projection period, by capitalizing the projected EBITDA in fiscal 2020 by multiples ranging from 10.0x EBITDA to 11.0x EBITDA. These multiples were selected based on an analysis of selected public companies and selected merger and acquisition transactions, as described below. The resulting estimated future value of the Company in 2020 is referred to as the terminal value.

Duff & Phelps then discounted the projected debt-free, free cash flows of the Company for the fiscal years 2017 through 2020, as well as the terminal value for the Company, by the Company's estimated weighted average cost of capital ranging from 13.0% to 14.0%. Fiscal 2017 debt-free, free cash flows of the Company were adjusted to include only the interim period from October 1, 2017 through December 31, 2017. The interim period for 2017 accounts for the fact the most current financial statements made available to Duff & Phelps were as of September 30, 2017.

The Company's estimated weighted average cost of capital was based on the Capital Asset Pricing Model using information derived from the companies in the selected public company analysis. The weighted average cost of capital reflected the relative risk associated with the Company's projected debt-free, free cash flows, the Company's current and pro-forma capital structures, as well as the rates of return that the Company's security holders could expect to realize on alternative investment opportunities.

The DCF analysis shown below, resulted in an estimated total enterprise value of the Company ranging from $132.0 million to $147.0 million.

**Discounted Cash Flow Analysis**
***($ in thousands)***

| | | *Management Projections* | | | |
|---|---|---|---|---|---|
| | | **2017P** | **2018P** | **2019P** | **2020P** |
| Total Revenue | | $83,035 | $87,412 | $97,987 | $103,927 |
| *Growth* | | *(7.7)%* | *5.3%* | *12.1%* | *6.1%* |
| EBITDA | | $1,521 | $7,431 | $14,036 | $16,543 |
| *EBITDA Margin* | | *1.8%* | *8.5%* | *14.3%* | *15.9%* |
| *Growth* | | *NM* | *NM* | *88.9%* | *17.9%* |
| | | **10/17 - 12/17** | | | |
| Earnings Before Interest and Taxes | | $104 | $3,286 | $9,617 | $13,146 |
| Pro Forma Taxes @ 25.0% (1) | | 0 | (822) | (2,404) | (3,287) |
| Net Operating Profit After Tax | | $104 | $2,465 | $7,213 | $9,860 |
| Depreciation | | 984 | 4,145 | 4,418 | 3,397 |
| Capital Expenditures | | (520) | (1,321) | (1,200) | (1,200) |
| (Increase) / Decrease in Working Capital (2) | | 971 | (570) | (2,295) | (1,061) |
| Free Cash Flow | | $1,540 | $4,719 | $8,136 | $10,995 |
| Terminal EBITDA Exit Multiple | | 10.0 x | 10.5 x | 11.0 x | |
| Weighted Average Cost of Capital | | 14.0% | 13.5% | 13.0% | |
| **Concluded Enterprise Value Range** | | **$132,000** | **$139,500** | **$147,000** | |
| **Implied Enterprise Value Multiples** | | | | | |
| EV / 2017 EBITDA | $1,521 | NM | NM | NM | |
| EV / 2018 EBITDA | 7,431 | 17.8 x | 18.8 x | 19.8 x | |
| EV / 2019 EBITDA | 14,036 | 9.4 x | 9.9 x | 10.5 x | |
| EV / 2017 Revenue | 83,035 | 1.59 x | 1.68 x | 1.77 x | |
| EV / 2018 Revenue | 87,412 | 1.51 x | 1.60 x | 1.68 x | |

(1) Reflects blended tax rate; adjusted to reflect changes to the US statutory corporate tax rate

(2) Reflects change in average working capital balance

Source: Management Projections

***Market Approach***. Duff & Phelps analyzed valuation multiples of enterprise value to EBITDA of the selected public companies and selected M&A transactions to apply to the Company's projected 2020 EBITDA to estimate the terminal

value in the DCF analysis. Duff & Phelps did not utilize a multiple of the Company's 2017 or 2018 performance because the Company is restructuring its sales and operating model, resulting in operating performance that is not necessarily representative of the Company's earnings and cash flow generation capability going forward.

The selected public companies utilized for comparative purposes were not identical to the Company, and the transactions utilized for comparative purposes in the following analysis were not identical to the Tier 2 Transaction. Duff & Phelps does not have access to non-public information of any of the companies or transactions used for comparative purposes. Accordingly, a complete valuation analysis of the Company, the Tier 2 Transaction and the Private Placement cannot rely solely upon a quantitative review of the selected public companies and selected transactions, but involve complex considerations and judgments concerning differences in financial and operating characteristics of such companies and targets and other factors that could affect their value relative to that of the Company and the Tier 2 Transaction and the Private Placement. Therefore, the selected public companies and selected M&A transactions analysis is subject to these limitations.

*Selected Public Companies Analysis.* A selected public companies analysis compares a subject company to a group of public companies that investors may consider to have similar investment characteristics relative to the Company, and applies valuation multiples to the Company's financial performance metrics based on the qualitative and quantitative comparison. Comparative factors include, but are not limited to, size, historical and projected growth and profitability and factors that affect the riskiness of future cash flows.

Duff & Phelps compared certain financial information of the Company to corresponding data and ratios from publicly traded companies that Duff & Phelps deemed relevant to its analysis. For purposes of its analysis, Duff & Phelps used certain publicly available historical financial data and consensus equity analyst estimates for the selected publicly traded companies. Duff & Phelps included the eleven companies below in the selected public companies analysis based on their relative similarity, primarily in terms of industry and markets served, to those of the Company.

| ***Market Cap <$1B*** | ***Market Cap >$1B, <$5B*** | ***Market Cap >$5B*** |
|---|---|---|
| SeaSpine Holdings Corporation | Globus Medical, Inc. | Medtronic plc |
| Orthofix International N.V. | Integra LifeSciences Holdings Corporation | Stryker Corporation |
| RTI Surgical, Inc. | NuVasive, Inc. | Zimmer Biomet Holdings, Inc. |
| K2M Group Holdings, Inc. | Wright Medical Group N.V. | |

Duff & Phelps noted that the Company has not yet achieved profitability and, although the Company achieved a modest positive EBITDA in 2016 and is expecting a modest positive EBITDA in 2017, the Company's profits are generally lower than the profit margins achieved by the selected public companies. Furthermore, the estimated revenue growth rate for the Company is a negative 7.7% for fiscal 2017, before growing at a projected revenue growth rate of 5.3% in 2018 and then at 12.1% in 2019. The Company's estimated 2017 revenue growth is weaker than all of the selected public companies, and its 2018 and 2019 revenue growth is similar to the selected public companies, taken as a group.

*Summary of Market Approach Analysis:* In selecting multiples, Duff & Phelps reviewed the selected public companies, taken as a group. Duff & Phelps noted that the Company is significantly smaller in size relative to the selected public companies, with generally weaker profitability and weaker near-term growth prospects.

Based on the Company's smaller size, lower profitability and recent negative growth, Duff & Phelps selected terminal EBITDA multiples of 10.0x to 11.0x to apply to the Company's projected 2020 EBITDA. These EBITDA multiples are below the mean and median multiples of the selected public companies.

Selected Public Companies Analysis

| COMPANY INFORMATION | REVENUE GROWTH | | | | EBITDA GROWTH | | | | EBITDA MARGIN | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company Name** | **2-YR CAGR** | **2017** | **2018** | **2019** | **2-YR CAGR** | **2017** | **2018** | **2019** | **3-YR AVG** | **2017** | **201** |
| Market Capitalization < $1B | | | | | | | | | | | |
| K2M Group Holdings, Inc. | 8.2 % | 8.2 % | 10.7% | 10.3% | NA | NM | NM | NM | -5.3 % | -1.9 % | 1.0 |
| Orthofix International N.V. | 0.6 | 4.7 | 4.7 | 4.6 | 2.4 % | 4.1 % | 10.7 % | 10.0 % | 14.6 | 15.4 | 16 |
| RTI Surgical, Inc. (1) | 1.3 | NA | NA | 4.1 | -5.9 | NA | NA | NA | 12.4 | NA | 13 |
| SeaSpine Holdings Corporation | -2.4 | 1.6 | 4.1 | NA | NM | NM | NM | NM | -12.4 | -25.0 | -1 |
| Mean | 1.9 % | 4.8 % | 6.5 % | 6.3 % | -1.8 % | 4.1 % | 10.7 % | 10.0 % | 2.3 % | -3.8 % | 4.7 |
| Median | 0.9 % | 4.7 % | 4.7 % | 4.6 % | -1.8 % | 4.1 % | 10.7 % | 10.0 % | 3.6 % | -1.9 % | 7.4 |
| Market Capitalization > $1B, > $5B | | | | | | | | | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Globus Medical, Inc. | 6.5 % | 10.8% | 9.0 % | 6.8 % | 6.5 % | 12.1 % | 8.9 % | 8.8 % | 35.2 % | 35.7 % | 35 |
| Integra LifeSciences Holdings Corporation (1) | 2.5 | NA | 25.8 | 5.3 | 10.4 | NA | 32.6 | 10.7 | 21.0 | NA | 23 |
| NuVasive, Inc. | 8.1 | 7.1 | 5.4 | 6.4 | 16.0 | 9.8 | 13.5 | 10.2 | 20.2 | 23.0 | 24 |
| Wright Medical Group N.V. | 32.3 | 7.6 | 8.7 | 11.7 | NM | 117.5 | 39.5 | 40.0 | -4.9 | 11.5 | 14 |
| Mean | 12.3% | 8.5 % | 12.2% | 7.6 % | 11.0 % | 46.5 % | 23.6 % | 17.4 % | 17.9 % | 23.4 % | 24 |
| Median | 7.3 % | 7.6 % | 8.9 % | 6.6 % | 10.4 % | 12.1 % | 23.0 % | 10.5 % | 20.6 % | 23.0 % | 24 |
| Market Capitalization > $5B | | | | | | | | | | | |
| Metronic plc (1) | 2.8 % | 0.1 % | 2.4 % | 4.6 % | 13.7 % | 1.2 % | 6.2 % | 9.7 % | NA | 31.3 % | 32 |
| Stryker Corporation | 5.4 | 9.2 | 7.2 | 6.0 | 6.1 | 9.6 | 9.3 | 8.1 | 27.1 % | 27.5 | 28 |
| Zimmer Biomet Holdings, Inc. (1) | -1.2 | 1.2 | 2.1 | 2.7 | NA | 3.3 | 0.3 | 6.0 | NA | 37.2 | 36 |
| Mean | 2.3 % | 3.5 % | 3.9 % | 4.4 % | 9.9 % | 4.7 % | 5.3 % | 7.9 % | 27.1 % | 32.0 % | 32 |
| Median | 2.8 % | 1.2 % | 2.4 % | 4.6 % | 9.9 % | 3.3 % | 6.2 % | 8.1 % | 27.1 % | 31.3 % | 32 |
| Aggregate Mean | 5.8 % | 5.6 % | 8.0 % | 6.3 % | 7.0 % | 22.5 % | 15.1 % | 12.9 % | 12.0 % | 17.2 % | 19 |
| Aggregate Median | 2.8 % | 7.1 % | 6.3 % | 5.7 % | 6.5 % | 9.6 % | 10.0 % | 9.9 % | 14.6 % | 23.0 % | 23 |
| Xtant Medical Holdings, Inc. (1) (2) | 5.0 % | -6.4 % | 4.9 % | 5.7 % | NA | 145.2% | 217.1% | -12.0% | -3.2 % | 3.2 % | 9.1 |
| Management Projections | 7.7 % | -7.7 % | 5.3 % | 12.1% | -27.1% | **NM** | **NM** | 88.9 % | 1.1 % | 1.8 % | 8.5 |

(1) Pro forma metrics for historical periods not available

(2) Historical metrics as reported; Projected metrics based on analysis consensus estimates

2-YR CAGR = Compounded annual growth rate for the latest fiscal year (2016) over the fiscal year two periods prior (2014)

EBITDA = Earnings Before Interest, Texas, Depreciation and Amortization

Source: S&P Capital IQ, SEC Filings and Management Projections

**Selected Public Companies Analysis** As of December 20, 2017
*(US$ in millions, except per share data)*

| COMPANY INFORMATION | MARKET DATA | | | | ENTERPRISE VALUE AS MULTIPLE OF | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Company Name** | **Common Stock Price on 12/20/2017** | **% of 52-Week High** | **Market Organization** | **Enterprise Value** | **2017 EBITDA** | **2018 EBITDA** | **2019 EBITDA** | **2017 Revenue** | **2018 Revenue** | **2019 Revenue** |
| Market Capitalization < $1B | | | | | | | | | | |
| K2M Group Holdings, Inc. | $18.30 | 70.4% | $793 | $833 | NM | NM | NM | 3.25x | 2.94x | 2.67x |
| Orthofix International N.V. | 55.05 | 99.8 | 1,003 | 970 | 14.7x | 13.3x | 12.0x | 2.26 | 2.16 | 2.07 |
| RTI Surgical, Inc. (1) | 4.15 | 69.2 | 252 | 348 | NA | 9.3 | NA | NA | 1.24 | 1.19 |
| SeaSpine Holdings Corporation | 9.99 | 74.2 | 134 | 116 | NM | NM | NM | 0.88 | 0.85 | 0.80 |
| Mean | | 78.4% | $546 | $567 | 14.7x | 11.3x | 12.0x | 2.13x | 1.80x | 1.68x |
| Median | | 72.3% | $523 | $590 | 14.7x | 11.3x | 12.0x | 2.26x | 1.70x | 1.63x |
| Market Capitalization > $1B, < $5B | | | | | | | | | | |
| Globus Medical, Inc. | $40.10 | 96.2% | $3,865 | $3,527 | 15.8x | 14.5x | 13.3x | 5.64x | 5.18x | 4.85x |
| Integra LifeSciences Holdings Corporation | 49.91 | 88.5 | 3,917 | 5,140 | NA | 14.7 | 13.3 | 4.39 | 3.49 | 3.31 |
| NuVasive, Inc. | 59.24 | 72.5 | 3,019 | 3,590 | 15.2 | 13.4 | 12.1 | 3.48 | 3.30 | 3.11 |
| Wright Medical Group N.V. | 23.01 | 73.0 | 2,404 | 3,059 | 35.9 | 25.8 | 18.4 | 4.12 | 3.79 | 3.39 |
| Mean | | 82.5% | $3,301 | $3,829 | 22.3x | 17.1x | 14.3x | 4.41x | 3.94x | 3.66x |
| Median | | 80.7% | $3,442 | $3,558 | 15.8x | 14.6x | 13.3x | 4.25x | 3.64x | 3.35x |
| Market Capitalization > $5B | | | | | | | | | | |
| Medtronic plc | $81.38 | 90.7% | $110,148 | $121,866 | 13.2x | 12.5x | 11.4x | 4.15x | 4.05x | 3.87x |
| Stryker Corporation | 154.78 | 96.4 | 57,925 | 63,637 | 18.7 | 17.1 | 15.8 | 5.14 | 4.80 | 4.53 |
| Zimmer Biomet Holdings, Inc. | 121.18 | 90.8 | 24,536 | 34,925 | 12.1 | 12.0 | 11.4 | 4.49 | 4.40 | 4.28 |
| Mean | | 92.6% | $64,203 | $73,476 | 14.7x | 13.9x | 12.8x | 4.59x | 4.42x | 4.23x |
| Median | | 90.8% | $57,925 | $63,637 | 13.2x | 12.5x | 11.4x | 4.49x | 4.40x | 4.28x |
| Aggregate Mean | | 83.8% | $18,909 | $21,637 | 17.9x | 14.7x | 13.5x | 3.78x | 3.29x | 3.10x |
| Aggregate Median | | 88.5% | $3,019 | $3,527 | 15.2x | 13.4x | 12.7x | 4.13x | 3.49x | 3.31x |

Enterprise Value = (Market Capitalization + Management Equity + Debt + Preferred Stock + Non-Controlling Interest) - (Cash & Equivalents + Net Non-Operating Assets)

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

Source: S&P Capital IQ, SEC Filings, Annual and Interim Reports

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*Selected Transactions Analysis*. Duff & Phelps also identified certain precedent M&A transactions involving target companies that had businesses somewhat similar to that of the Company with transaction values under $1.0 billion. Duff & Phelps compared the Company to the target companies involved in the selected M&A transactions listed in the table below. The selection of these M&A transactions was based, among other things, on the target company's industry, the relative size of the applicable M&A transactions compared to the Company and the availability of public information related to the applicable M&A transactions. These EBITDA multiples were also considered when selecting multiples to apply to the Company's 2020 EBITDA.

Selected M&A Transaction Analysis
($ in millions)

| Announced | Target Name | Target Business Description | Acquirer Name | Enterprise Value | 2-Year Revenue CAGR | LTM Revenue | LTM EBITDA | EBITDA Margin | EV / Revenu |
|---|---|---|---|---|---|---|---|---|---|
| Spinal Related Companies | | | | | | | | | |
| Oct-17 | Vexim SA | Provides invasive solutions for treatment of traumatic spine pathologies | Stryker Corporation | $184.7 | 21.8% | $23.2 | NM | NM | 7.97x |
| Jul-16 | DFINE Inc. | Develops minimally invasive therapeutic devices that are used to treat pathologies of vertebrae, metastatic spinal tumors, and vertebral compressions fractures | Merit Medical Systems, Inc. | $97.5 | NA | $33.4 | NM | NA | 2.92x |
| Mar-16 | Alcoa Remmele Medical Operations (nka: LISI MEDICAL Remmele) | Manufacturers orthopedic, traumatological, spinal, and dental implants and instruments | Hi-Shear Corporation, Lisi Medical SAS | $102.0 | NA | $70.0 | NM | NA | 1.46x |
| Jul-15 | X-spine Systems, Inc. (1) | Develops spinal implants and instrumentation for the treatment of spinal disease worldwide | Bacterin International Holdings, Inc. (nka: Xtant Medical Holdings, Inc.) | $87.9 | NA | $42.2 | $7.3 | 17.3% | 2.08x |
| Feb-15 | Branch Medical Group, Inc. | Manufacturers medical implants and graphic cases for spinal products, orthopedic products, and sterilization trays | Globus Medical, Inc. | $63.2 | NA | $23.3 | $9.1 | 39.1% | 2.71x |
| Oct-13 | Lanx, Inc. | Develops and commercializes spinal surgery products for surgeons in the United States | EBI Holdings, LLC | $147.0 | NA | $90.0 | NA | NA | 1.63x |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Mar-13 | Baxano, Inc. | Develops and manufactures minimally invasive tools for restoring spine function and preserving healthy tissue | TranS1, Inc. (nka Baxano Surgical, Inc.) | $23.6 | NA | $9.4 | NA | NA | 2.51x |
| | | | Mean | $100.9 | 21.8% | $41.6 | $8.2 | 28.2% | 3.04x |
| | | | Median | $97.5 | 21.8% | $33.4 | $8.2 | 28.2% | 2.51x |