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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 0-31271

RTI Surgical, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

59-3466543
(I.R.S. Employer
Identification No.)

11621 Research Circle
Alachua, Florida
(Address of principal executive offices)

32615
(Zip Code)

Registrant's telephone number, including area code: (386) 418-8888

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

Shares of common stock, \$0.001 par value, outstanding on April 27, 2018: 63,427,161

RTI SURGICAL, INC.
FORM 10-Q For the Quarter Ended March 31, 2018
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Part I Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

RTI SURGICAL, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets (In thousands, except share data)

| | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 13,812 | \$ 22,381 |
| Accounts receivable - less allowances of \$1,605 at March 31, 2018 and \$1,471 at December 31, 2017 | 41,594 | 35,081 |
| Inventories - net | 106,694 | 111,927 |
| Prepaid and other current assets | 16,192 | 16,285 |
| Total current assets | 178,292 | 185,674 |
| Property, plant and equipment - net | 79,150 | 79,564 |
| Deferred tax assets - net | 11,929 | 9,575 |
| Goodwill | 65,254 | 46,242 |
| Other intangible assets - net | 24,163 | 23,070 |
| Other assets - net | 1,806 | 1,781 |
| Total assets | <u>\$ 360,594</u> | <u>\$ 345,906</u> |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 14,740 | \$ 18,252 |
| Accrued expenses | 22,890 | 25,610 |
| Current portion of deferred revenue | 4,944 | 4,868 |
| Current portion of short and long-term obligations | 4,268 | 4,268 |
| Total current liabilities | 46,842 | 52,998 |
| Long-term obligations - less current portion | 57,009 | 42,076 |
| Other long-term liabilities | 5,131 | 1,431 |
| Deferred revenue | 4,448 | 3,741 |
| Total liabilities | 113,430 | 100,246 |
| Preferred stock Series A, \$.001 par value: 5,000,000 shares authorized; 50,000 shares issued and outstanding | 64,935 | 63,923 |
| Stockholders' equity: | | |
| Common stock, \$.001 par value: 150,000,000 shares authorized; 63,401,208 and 62,694,441 shares issued and outstanding, respectively | 63 | 63 |
| Additional paid-in capital | 430,014 | 429,459 |
| Accumulated other comprehensive loss | (5,936) | (6,329) |
| Accumulated deficit | (237,159) | (237,066) |
| Less treasury stock, 1,195,901 and 1,114,071 shares, respectively, at cost | (4,753) | (4,390) |
| Total stockholders' equity | 182,229 | 181,737 |
| Total liabilities and stockholders' equity | <u>\$ 360,594</u> | <u>\$ 345,906</u> |

See notes to unaudited condensed consolidated financial statements.

RTI SURGICAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited, in thousands, except share and per share data)

| | Three months ended | |
|---|--------------------|------------|
| | March 31, | |
| | 2018 | 2017 |
| Revenues | \$ 69,890 | \$ 69,939 |
| Costs of processing and distribution | 36,208 | 34,160 |
| Gross profit | 33,682 | 35,779 |
| Expenses: | | |
| Marketing, general and administrative | 28,389 | 29,671 |
| Research and development | 3,421 | 3,688 |
| Severance and restructuring costs | 884 | 4,403 |
| Asset impairment and abandonments | 129 | — |
| Acquisition and integration expenses | 800 | — |
| Total operating expenses | 33,623 | 37,762 |
| Operating income (loss) | 59 | (1,983) |
| Other (expense) income: | | |
| Interest expense | (835) | (819) |
| Interest income | 11 | — |
| Foreign exchange gain | 49 | 20 |
| Total other expense - net | (775) | (799) |
| Loss before income tax (provision) benefit | (716) | (2,782) |
| Income tax (provision) benefit | (249) | 910 |
| Net loss | (965) | (1,872) |
| Convertible preferred dividend | (966) | (910) |
| Net loss applicable to common shares | (1,931) | (2,782) |
| Other comprehensive gain: | | |
| Unrealized foreign currency translation gain | 393 | 320 |
| Comprehensive loss | \$ (1,538) | \$ (2,462) |
| Net loss per common share - basic | \$ (0.03) | \$ (0.05) |
| Net loss per common share - diluted | \$ (0.03) | \$ (0.05) |
| Weighted average shares outstanding - basic | 63,150,009 | 58,495,796 |
| Weighted average shares outstanding - diluted | 63,150,009 | 58,495,796 |

See notes to unaudited condensed consolidated financial statements.

RTI SURGICAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
(In thousands)

| | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Treasury Stock | Total |
|--|-----------------|----------------------------------|---|------------------------|-------------------|------------------|
| Balance, December 31, 2017 | \$ 63 | \$429,459 | \$ (6,329) | \$ (237,066) | \$(4,390) | \$181,737 |
| Accumulated effect of adoption of the revenue recognition standard | — | — | — | 872 | — | — |
| Net loss | — | — | — | (965) | — | (965) |
| Foreign currency translation adjustment | — | — | 393 | — | — | 393 |
| Exercise of common stock options | — | 287 | — | — | — | 287 |
| Stock-based compensation | — | 1,280 | — | — | — | 1,280 |
| Purchase of treasury stock | — | — | — | — | (363) | (363) |
| Amortization of preferred stock Series A issuance costs | — | (46) | — | — | — | (46) |
| Preferred stock Series A dividend | — | (966) | — | — | — | (966) |
| Balance, March 31, 2018 | <u>\$ 63</u> | <u>\$430,014</u> | <u>\$ (5,936)</u> | <u>\$ (237,159)</u> | <u>\$(4,753)</u> | <u>\$182,229</u> |

See notes to unaudited condensed consolidated financial statements.

RTI SURGICAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)

| | Three Months Ended March 31, | |
|---|---------------------------------|------------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$ (965) | \$ (1,872) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization expense | 3,584 | 3,568 |
| Provision for bad debts and product returns | 149 | 344 |
| Provision for inventory write-downs | 2,641 | 1,789 |
| Amortization of deferred revenue | (1,217) | (1,274) |
| Deferred income tax provision | (38) | (1,085) |
| Stock-based compensation | 1,280 | 834 |
| Other | 409 | 114 |
| Change in assets and liabilities: | | |
| Accounts receivable | (3,112) | 4,905 |
| Inventories | 2,127 | 734 |
| Accounts payable | (3,513) | 108 |
| Accrued expenses | (3,877) | 579 |
| Deferred revenue | 2,000 | 2,000 |
| Other operating assets and liabilities | (917) | (1,167) |
| Net cash (used in) provided by operating activities | <u>(1,449)</u> | <u>9,577</u> |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (2,118) | (3,283) |
| Patent and acquired intangible asset costs | (330) | (319) |
| Acquisition of Zyga Technology | (21,000) | — |
| Net cash used in investing activities | <u>(23,448)</u> | <u>(3,602)</u> |
| Cash flows from financing activities: | | |
| Proceeds from exercise of common stock options | 1,394 | 108 |
| Proceeds from long-term obligations | 20,000 | 2,000 |
| Payments on long-term obligations | (5,125) | (4,250) |
| Other financing activities | — | (142) |
| Net cash provided by (used in) financing activities | <u>16,269</u> | <u>(2,284)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 59 | 58 |
| Net (decrease) increase in cash and cash equivalents | (8,569) | 3,749 |
| Cash and cash equivalents, beginning of period | 22,381 | 13,849 |
| Cash and cash equivalents, end of period | <u>\$ 13,812</u> | <u>\$ 17,598</u> |
| Supplemental cash flow disclosure: | | |
| Cash paid for interest | \$ 600 | \$ 1,458 |
| Non-cash acquisition of property, plant and equipment | 157 | 2,234 |
| Increase in accrual for dividend payable | 966 | 910 |

See notes to unaudited condensed consolidated financial statements.

RTI SURGICAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)

1. Operations and Organization

RTI Surgical is a global surgical implant company that designs, develops, manufactures and distributes biologic, metal and synthetic implants. The Company's implants are used in orthopedic, spine, sports medicine, general surgery, trauma and other surgical procedures to repair and promote the natural healing of human bone and other human tissues and improve surgical outcomes. The Company manufactures metal and synthetic implants and processes donated human musculoskeletal and other tissue and bovine and porcine animal tissue in producing allograft and xenograft implants using its proprietary BIOCLEANSE[®], TUTOPLAST[®] and CANCELLE[®] SP sterilization processes. The Company processes tissue at its facilities in Alachua, Florida and Neunkirchen, Germany and manufactures metal and synthetic implants in Marquette, Michigan and Greenville, North Carolina. The Company is accredited in the U.S. by the American Association of Tissue Banks and the Company is a member of AdvaMed. The Company's implants are distributed directly to hospitals and free-standing surgery centers throughout the U.S. and in more than 40 countries worldwide with the support of both its and third-party representatives as well as through larger purchasing companies.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, which the Company considers necessary for a fair presentation of the results of operations for the periods shown. The condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and, therefore, do not include all information and footnotes necessary for a fair presentation of consolidated financial position, results of operations, comprehensive loss and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany balances and transactions have been eliminated in consolidation. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The condensed consolidated financial statements include the accounts of RTI Surgical, Inc. and its wholly owned subsidiaries, Pioneer Surgical Technology, Inc. ("Pioneer"), Tutogen Medical, Inc. ("TMI"), Zyga Technology, Inc. ("Zyga"), RTI Surgical, Inc. – Cardiovascular (inactive), Biological Recovery Group, Inc. (inactive) and RTI Services, Inc. (inactive). The condensed consolidated financial statements also include the accounts of RTI Donor Services, Inc. ("RTIDS"), which is a controlled entity.

3. Recently Issued Accounting Standards

Compensation—Stock Compensation — In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASU") 2017-09, "*Compensation—Stock Compensation*" (Topic 718): Scope of Modification Accounting. The requirement provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. For public business entities, this ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. The Company adopted ASU 2017-09 on January 1, 2018 and it did not have an impact on its condensed consolidated financial statements.

Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets — In February 2017, the FASB issued ASU 2017-05, "*Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets*" (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This ASU requires all entities to derecognize a business or nonprofit activity in accordance with Topic 810, and requires that all entities derecognize an equity method investment in accordance with Topic 860. The amendments in this ASU eliminate the scope exceptions, and simplifies GAAP. This ASU is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company adopted ASU 2017-05 on January 1, 2018 and it did not have an impact on its condensed consolidated financial statements.

Business Combinations – Clarifying the Definition of a Business — In January 2017, FASB issued ASU No. 2017-01, "*Business Combinations – Clarifying the Definition of a Business*" (Topic 805) ("ASU No. 2017-01"). ASU 2017-01 provides a framework to use in determining when a set of assets and activities is a business. ASU 2017-01 provides more consistency in applying the business combination guidance, reduces the costs of application, and makes the definition of a business more operable. ASU 2017-01 is effective for interim and annual periods within those annual periods beginning after December 15, 2017. The Company adopted ASU 2017-01 on January 1, 2018 and it did not have an impact on its condensed consolidated financial statements.

Revenue from Contracts with Customers — On January 1, 2018, the Company adopted a new accounting standard issued by the FASB on revenue recognition using the modified retrospective method. This new accounting standard outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. This standard supersedes existing revenue recognition requirements and eliminates most industry-specific guidance from GAAP. The core principle of the new accounting standard is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the adoption of this new accounting standard resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new accounting standard was applied to all contracts, apart from contracts for which all or substantially all revenue was recognized before January 1, 2018. Additionally, the Company elected to account for shipping and handling activities as a fulfillment cost rather than a separate performance obligation.

Adoption Impact

The Company identified three contracts which previously resulted in revenue recognition occurring at the time of shipment; however, under the new revenue recognition standard, the Company is required to recognize revenue over time. The assessment of our January 1, 2018, condensed consolidated balance sheet under ASC Topic 606 resulted in a cumulative-effect adjustment to opening retained earnings, unbilled accounts receivable and costs incurred for inventory.

The effects of the adoption under ASC Topic 606 are outlined in the following table:

| | Year Ended December 31, 2017 | Impact | January 1, 2018 |
|---------------------|---------------------------------|----------|--------------------|
| Accounts receivable | \$ 35,081 | \$ 2,904 | \$ 37,985 |
| Inventories - net | 111,927 | (1,766) | 110,161 |
| Deferred tax assets | 9,575 | (266) | 9,309 |
| Accumulated deficit | (237,066) | 872 | (236,194) |

The impact of adoption of Topic 606 to the Company’s condensed consolidated statements of comprehensive loss for the three months ended March 31, 2018 was as follows:

| | As Reported | Excluding Impact of Topic 606 |
|-------------------------------------|-------------|----------------------------------|
| Total revenues | \$ 69,890 | \$ 68,571 |
| Cost of processing and distribution | 36,208 | 35,565 |
| Income tax provision | (249) | (37) |
| Net loss | (1,931) | (2,395) |

Disaggregation of revenue

The Company operates in one reportable segment composed of four lines of business. Effective January 1, 2018, the reporting of the Company’s lines of business are composed primarily of four categories: spine; sports; original equipment manufacturer (“OEM”) and international. The following table presents revenues from these four categories for the three months ended March 31, 2018:

| | For the Three Months Ended March 31, 2018 |
|---|--|
| Revenues: | |
| Spine | \$ 19,263 |
| Sports | 13,435 |
| OEM | 30,120 |
| International | 7,072 |
| Total revenues from contracts with customers | <u>\$ 69,890</u> |

The following table presents revenues recognized at a point in time and over time for the three months ended March 31, 2018:

For the Three Months Ended
March 31, 2018

| | | |
|--|----|--------|
| Revenue recognized at a point in time | \$ | 60,163 |
| Revenue recognized over time | | 9,727 |
| Total revenues from contracts with customers | \$ | 69,890 |

Performance Obligations

The Company's performance obligations consist mainly of transferring control of implants identified in the contracts.

Some of the Company's contracts offer assurance-type warranties in connection with the sale of a product to a customer. Assurance-type warranties provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Such warranties do not represent a separate performance obligation and are not material to the condensed consolidated financial statements.

When Performance Obligations Are Satisfied

The Company typically transfers control at a point in time upon shipment or delivery of the implants for direct sales, or upon implantation for sales of consigned inventory. The customer is able to direct the use of, and obtain substantially all of the benefits from, the implant at the time the implant is shipped, delivered, or implanted, respectively based on the terms of the contract.

For performance obligations related to the aforementioned three contracts with exclusively built inventory clauses, the Company typically satisfies its performance obligations evenly over the contract term as inventory is built. Such exclusively manufactured inventory has no alternative use and the Company has an enforceable right to payment for performance to date. The Company uses the input method to measure the manufacturing activities completed to date, which depicts the progress of the Company's performance obligation of transferring control of exclusively built inventory.

For the contracts with upfront and annual exclusivity fees, revenue related to those fees is recognized over the contract term following a consistent method of measuring progress towards satisfaction of the performance obligation. The Company uses the method and measure of progress that best depicts the transfer of control to the customer of the goods or services to date relative to the remaining goods or services promised under the contract.

Significant Payment Terms

The contract with the customer states the final terms of the sale, including the description, quantity, and price of each implant distributed. Payment for OEM contracts is typically due in full within 30 days of delivery or the start of the contract term. For the remaining lines of business, payment terms are typically due in full within 30 to 60 days of delivery. The Company performs a review of each specific customer's credit worthiness and ability to pay prior to acceptance as a customer. Further, the Company performs periodic reviews of its customers' creditworthiness prospectively. Since the customer agrees to a stated price in the contract that does not vary over the contract, the majority of contracts do not contain variable consideration.

Nature of Goods and Services

The Company distributes biologic, metal and synthetic implants. In some instances, the Company also enters into contracts with customers for the exclusive built of implants based on customer specifications.

Returns

In the normal course of business, the Company does accept product returns. The amount of consideration the Company ultimately receives varies depending upon the return terms that the Company may offer, which are accounted for as variable consideration when estimating the amount of revenue to recognize. The Company establishes provisions for estimated returns based on historical experience. The amount recorded on the Company's balance sheets for product return allowance was \$1,125 million and \$1,110 million at March 31, 2018 and December 31, 2017, respectively. Actual product returns have not differed materially from estimated amounts reserved in the accompanying condensed financial statements.

Critical Accounting Estimates

Estimates are used to determine the amount of variable consideration in contracts, and the measure of progress for contracts where revenue is recognized over time. The Company reviews and updates these estimates regularly. Our contracts generally do not include multiple performance obligations, and accordingly do not generally require estimates of the standalone selling price for each performance obligation.

Some contracts with customers include variable consideration primarily related to volume rebates. The Company estimates variable consideration at the most likely amount to determine the total consideration which the Company expects to be entitled. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue

recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company's estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available.

Contract Asset and Liability

The opening and closing balances of the Company's accounts receivable, contract asset and current and long-term contract liability are as follows:

| | Accounts Receivable | Contract Liability (Current) | Contract Liability (Long- Term) |
|---------------------|------------------------|------------------------------------|--|
| Opening 1/1/2018 | \$ 37,985 | \$ 4,868 | \$ 3,741 |
| Closing 3/31/2018 | 41,594 | 4,944 | 4,448 |
| Increase/(decrease) | <u>3,609</u> | <u>76</u> | <u>707</u> |

Contract liabilities consists primarily of deferred revenue arising from upfront and annual exclusivity fees. The difference between the opening and closing balances of the Company's contract liabilities primarily results from the Company's performance of the Company's contractual obligations over time. The Company recognizes sales commissions as incurred since the amortization period is less than one year. The Company does not incur other incremental costs of obtaining a contract with a customer, and therefore, does not have material contract assets, or impairment losses associated therewith. Revenue recognized for the three months ended March 31, 2018 from amounts included in contract liabilities at the beginning of the period was \$1,217.

4. Acquisition of Zyga Technology, Inc.

On January 4, 2018, the Company acquired Zyga Technology, Inc. ("Zyga"), a leading spine-focused medical device company that develops and produces innovative minimally invasive devices to treat underserved conditions of the lumbar spine. Zyga's primary product is the SIMmetry® Sacroiliac Joint Fusion System. Under the terms of the merger agreement dated January 4, 2018, the Company acquired Zyga for \$21,000, borrowing \$18,000 on our revolving credit facility and funded the remaining \$3,000 through cash on hand, \$1,000 contingent upon the successful achievement of a clinical milestone, and a revenue based earnout consideration of up to \$35,000. Based on a probability weighted model the Company estimates a contingent liability related to the clinical milestone and revenue based earnout of \$3,700. Acquisition related costs were approximately \$1,430, of which approximately \$800 was incurred during 2018 and is reflected separately in the accompanying Condensed Consolidated Statements of Comprehensive Loss.

The Company has accounted for the acquisition of Zyga under ASC 805, *Business Combinations*. Zyga's results of operations are included in the condensed consolidated financial statements for periods ending after January 4, 2018, the acquisition date.

The purchase price was financed as follows:

| | (In thousands) |
|--|------------------|
| Cash proceeds from revolving credit facility | \$ 18,000 |
| Cash from RTI Surgical | 3,000 |
| Total purchase price | <u>\$ 21,000</u> |

The valuation of the acquired assets and liabilities is not yet complete, and as such, the Company has not yet finalized its allocation of the purchase price for the acquisition. The table below represents an allocation of the total consideration to Zyga's tangible and intangible assets and liabilities based on management's preliminary estimate of their respective fair values as of January 4, 2018.

| | (In thousands) |
|-------------------------------|-----------------------|
| Inventories | \$ 1,049 |
| Accounts receivable | 573 |
| Other current assets | 53 |
| Property, plant and equipment | 151 |
| Other assets | 26 |
| Deferred tax assets | 2,824 |
| Current liabilities | (988) |
| Acquisition contingencies | (3,700) |
| Net tangible assets acquired | (12) |
| Other intangible assets | 2,000 |
| Goodwill | 19,012 |
| Total net assets acquired | <u>\$ 21,000</u> |

Total net assets acquired as of January 4, 2018, are all part of the Company's only operating segment. Fair values are based on management's preliminary estimates and assumptions including variations of the income approach, the cost approach and the market approach. Other intangible assets include patents, trademarks, and selling and marketing relationships.

The Company believes that the acquisition of Zyga has offered and continues to offer the potential for substantial strategic and financial benefits. The transaction further advances our strategic transformation focused on reducing complexity, driving operational excellence and accelerating growth. The Company believes the acquisition will enhance stockholder value through, among other things, enabling the Company to capitalize on the following strategic advantages and opportunities:

- Zyga's innovative minimally invasive treatment should accentuate our robust spine portfolio and opens significant opportunities to accelerate our Spine-focused expansion strategy.
- Zyga should leverage the core competencies of our Spine franchise by pursuing niche differentiated products, to gain scale and customer retention and support portfolio pull-through.

These potential benefits resulted in the Company paying a premium for Zyga resulting in the recognition of goodwill. The \$19,012 of goodwill was assigned to the Company's only operating segment and reporting unit.

The amount of Zyga's revenues and net loss since the January 4, 2018 acquisition date, included in the Company's Condensed Consolidated Statement of Comprehensive Loss for the quarter ended March 31, 2018, excluding acquisition related costs of approximately \$800, are \$1,160 and \$760, respectively.

The following unaudited pro forma information shows the results of the Company's operations as though the acquisition had occurred as of the beginning of that period (in thousands, except per share data):

| | For the Three Months Ended March 31, | |
|--------------------------------------|---|-------------|
| | 2018 | 2017 |
| Revenues | \$ 1,212 | \$ 1,086 |
| Net loss applicable to common shares | (827) | (1,211) |
| Basic net loss per share | (0.01) | (0.02) |
| Diluted net loss per share | (0.01) | (0.02) |

The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the actual results of operations had the acquisition taken place as of the beginning of the periods presented, or the results that may occur in the future. These amounts exclude costs incurred which are directly attributable to the acquisition, and which do not have a continuing impact on the combined companies' operating results.

The Company is currently completing its analysis of the purchase price allocation which it expects to complete by December 31, 2018.

5. Stock-Based Compensation

The Company's policy is to grant stock options at an exercise price equal to 100% of the market value of a share of common stock at closing on the date of the grant. The Company's stock options generally have five to ten-year contractual terms and vest over a one to five-year period from the date of grant. The Company's policy is to grant restricted stock awards at a fair value equal to 100% of the market value of a share of common stock at closing on the date of the grant. The Company's restricted stock awards generally vest over one to three-year periods.

2015 Incentive Compensation Plan – On April 14, 2015, the Company's stockholders approved and adopted the 2015 Incentive Compensation Plan (the "2015 Plan"). The 2015 Plan provides for the grant of incentive and nonqualified stock options and restricted stock to key employees, including officers and directors of the Company and consultants and advisors. The 2015 Plan allows for up to 4,656,587 shares of common stock to be issued with respect to awards granted.

Stock Options

As of March 31, 2018, there was \$3,750 of total unrecognized stock-based compensation related to nonvested stock options. The expense related to these stock options is expected to be recognized over a weighted-average period of 2.22 years.

Stock options outstanding, exercisable and available for grant at March 31, 2018, are summarized as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---------------------------------------|---------------------|--|---|---------------------------------|
| Outstanding at January 1, 2018 | 4,692,037 | \$ 3.86 | | |
| Granted | 596,100 | 4.25 | | |
| Exercised | (82,453) | 3.49 | | |
| Forfeited or expired | (296,949) | 5.81 | | |
| Outstanding at March 31, 2018 | <u>4,908,735</u> | <u>\$ 3.80</u> | <u>6.46</u> | <u>\$ 4,282</u> |
| Vested or expected to vest at | | | | |
| March 31, 2018 | <u>4,435,091</u> | <u>\$ 3.78</u> | <u>6.28</u> | <u>\$ 3,940</u> |
| Exercisable at March 31, 2018 | <u>1,310,463</u> | <u>\$ 3.95</u> | <u>4.47</u> | <u>\$ 1,039</u> |
| Available for grant at March 31, 2018 | <u>721,335</u> | | | |

The aggregate intrinsic value in the tables above represents the total pre-tax intrinsic value of stock options for which the fair market value of the underlying common stock exceeded the respective stock option exercise price.

Other information concerning stock options are as follows:

| | For the Three Months Ended March 31, | |
|--|---|---------|
| | 2018 | 2017 |
| Weighted average fair value of stock options granted | \$ 2.02 | \$ 1.51 |
| Aggregate intrinsic value of stock options exercised | 89 | 23 |

The aggregate intrinsic value of stock options exercised in a period represents the pre-tax cumulative difference, for the stock options exercised during the period, between the fair market value of the underlying common stock and the stock option exercise prices.

Restricted Stock Awards

The value of restricted stock awards is determined by the market value of the Company's common stock at the date of grant. For the three months ended March 31, 2018, restricted stock awards in the amount of 540,327 shares and 141,176 shares were granted to employees and non-employee directors, respectively. As of March 31, 2018, there was \$5,402 of total unrecognized stock-based compensation related to unvested restricted stock awards. That expense is expected to be recognized on a straight-line basis over a weighted-average period of 1.95 years. The following table summarizes information about unvested restricted stock awards as of March 31, 2018:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|-----------------------------|---------------------|---|
| Unvested at January 1, 2018 | 1,133,524 | \$ 4.15 |
| Granted | 681,503 | 4.21 |
| Vested | (199,896) | 3.63 |
| Forfeited | (27,035) | 4.36 |
| Unvested at March 31, 2018 | <u>1,588,096</u> | <u>\$ 4.24</u> |

For the three months ended March 31, 2018 and 2017, the Company recognized stock-based compensation as follows:

| | For the Three Months Ended March 31, | |
|---------------------------------------|---|---------------|
| | 2018 | 2017 |
| Stock-based compensation: | | |
| Costs of processing and distribution | \$ 33 | \$ 23 |
| Marketing, general and administrative | 1,232 | 802 |
| Research and development | 15 | 9 |
| Total | <u>\$ 1,280</u> | <u>\$ 834</u> |

6. Net Income Per Common Share

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

| | For the Three Months Ended March 31, | |
|--|---|-------------------|
| | 2018 | 2017 |
| Basic shares | 63,150,009 | 58,495,796 |
| Effect of dilutive securities: Stock options | — | — |
| Diluted shares | <u>63,150,009</u> | <u>58,495,796</u> |

For the three months ended March 31, 2018 and 2017, approximately 3,341,996 and 4,469,999, respectively, of issued stock options were not included in the computation of diluted net income per common share because they were anti-dilutive because their exercise price exceeded the market price. For the three months ended March 31, 2018 and 2017, options to purchase 577,046 and 303,971, respectively, of common stock were not included in the computation of diluted loss per share because dilutive shares are not factored into this calculation when a net loss is reported.

For the three months ended March 31, 2018, 50,000 shares of convertible preferred stock and accrued but unpaid dividends were anti-dilutive on an as if-converted basis and were not included in the computation of diluted net (loss) income per common share.

7. Inventories

Inventories by stage of completion are as follows:

| | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| Unprocessed tissue, raw materials and supplies | \$ 20,914 | \$ 22,071 |
| Tissue and work in process | 39,080 | 40,481 |
| Implantable tissue and finished goods | 46,700 | 49,375 |
| | <u>\$106,694</u> | <u>\$ 111,927</u> |

For the three months ended March 31, 2018 and 2017, the Company had inventory write-downs of \$2,641 and \$1,789, respectively, relating primarily to product obsolescence. For the three months ended March 31, 2018, \$1,023 of product obsolescence was due to the rationalization of our international distribution infrastructure.

8. Prepaid and Other Current Assets

Prepaid and Other Current Assets are as follows:

| | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| Income tax receivable | \$ 9,792 | \$ 9,825 |
| Receivable for executive stock option exercise | — | 1,234 |
| Other | 6,400 | 5,226 |
| | <u>\$ 16,192</u> | <u>\$ 16,285</u> |

9. Property, Plant and Equipment

Property, plant and equipment are as follows:

| | March 31, 2018 | December 31, 2017 |
|--|-------------------|----------------------|
| Land | \$ 2,027 | \$ 2,020 |
| Buildings and improvements | 58,351 | 57,954 |
| Processing equipment | 44,175 | 44,137 |
| Surgical instruments | 21,913 | 21,256 |
| Office equipment, furniture and fixtures | 1,168 | 1,352 |
| Computer equipment and software | 19,340 | 19,332 |
| Construction in process | 6,716 | 5,980 |
| | 153,690 | 152,031 |
| Less accumulated depreciation | (74,540) | (72,467) |
| | <u>\$ 79,150</u> | <u>\$ 79,564</u> |

For the three months ended March 31, 2018 and 2017, the Company had depreciation expense in connection with property, plant and equipment of \$2,623 and \$2,672, respectively.

10. Goodwill

Goodwill acquired during the first quarter of 2018 includes the excess of the Zyga purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed.

| | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|---|---------------------------|------------------------------|
| Balance at January 1 | \$ 46,242 | \$ 54,887 |
| Goodwill acquired related to Zyga acquisition | 19,012 | — |
| Goodwill disposed of related to sale of Cardiothoracic closure business | — | 8,645 |
| Balance at March 31 | <u>\$ 65,254</u> | <u>\$ 46,242</u> |

11. Other Intangible Assets

Other intangible assets are as follows:

| | <u>March 31, 2018</u> | | <u>December 31, 2017</u> | |
|---|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> |
| Patents | \$11,190 | \$ 4,879 | \$11,373 | \$ 4,890 |
| Acquired licensing rights | 14,747 | 9,326 | 14,747 | 9,097 |
| Marketing and procurement intangible assets | 22,620 | 10,189 | 20,603 | 9,666 |
| Total | <u>\$48,557</u> | <u>\$ 24,394</u> | <u>\$46,723</u> | <u>\$ 23,653</u> |

Marketing and procurement intangible assets include the following: procurement contracts, trademarks, selling and marketing relationships, customer lists and non-compete agreements.

For the three months ended March 31, 2018 and 2017, the Company had amortization expense of other intangible assets of \$961 and \$896, respectively. At March 31, 2018, management's estimates of future amortization expense for the next five years are as follows:

| | <u>Amortization Expense</u> |
|------|---------------------------------|
| 2018 | \$ 2,925 |
| 2019 | 3,900 |
| 2020 | 3,800 |
| 2021 | 3,800 |
| 2022 | 3,700 |
| 2023 | 1,100 |

12. Accrued Expenses

Accrued expenses are as follows:

| | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|---|---------------------------|------------------------------|
| Accrued compensation | \$ 4,428 | \$ 8,257 |
| Accrued severance and restructuring costs | 2,762 | 3,279 |
| Accrued executive transition costs | 1,859 | 2,300 |
| Accrued distributor commissions | 3,710 | 3,889 |
| Accrued donor recovery fees | 5,428 | 4,144 |
| Other | 4,703 | 3,741 |
| | <u>\$ 22,890</u> | <u>\$ 25,610</u> |

The Company accrues for the estimated donor recovery fees due to third party recovery agencies as tissue is received.

13. Short and Long-Term Obligations

Short and long-term obligations are as follows:

| | March 31, 2018 | December 31, 2017 |
|--------------------------------------|-------------------|----------------------|
| Term loan | \$ 23,125 | \$ 24,250 |
| Revolving Credit facility | 38,500 | 22,500 |
| Less unamortized debt issuance costs | (348) | (406) |
| Total | 61,277 | 46,344 |
| Less current portion | (4,268) | (4,268) |
| Long-term portion | <u>\$ 57,009</u> | <u>\$ 42,076</u> |

The Company entered into a Third Amended and Restated Loan Agreement, dated as of August 3, 2017 (the “2017 Loan Agreement”), among the Company, TD Bank, N.A. and First Tennessee Bank National Association, as Lenders (together with the various financial institutions as in the future may become parties thereto, the “Lenders”), and TD Bank, N.A., as administrative agent for the Lenders. The 2017 Loan Agreement represents a modification of the Second Amended and Restated Loan Agreement dated July 16, 2013, between the Company, TD Bank, N.A. and Regions Bank (as amended, the “2013 Loan Agreement”).

The 2017 Loan Agreement provides for a revolving credit facility (the “Revolving Credit Facility”), in the aggregate principal amount of \$42,500 which is unchanged from the final Amendment to the 2013 Loan Agreement. The Company used \$22,000 of the proceeds from the sale of the Cardiothoracic closure business (the “CT Business”) to partially pay down amounts owed under the 2013 Loan Agreement, and \$10,000 to pay down amounts owed under the Revolving Credit Facility. Subsequent to the pay down, the outstanding principal balance on the 2013 Loan Agreement Term Loan amounted to \$25,375 which became the principal amount of the 2017 Loan Agreement (the “Term Loan Facility” and, together with the Revolving Credit Facility, the “Facility”). The Facility is secured by substantially all the assets of the Company and its domestic subsidiaries and is guaranteed by the Company’s domestic subsidiaries, as well as 65% of the stock of the Company’s foreign subsidiaries.

Borrowings made under the 2017 Loan Agreement initially will bear interest at a rate per annum equal to monthly LIBOR plus a margin of up to 3.50%. Interest is payable quarterly in arrears, and principal on the Term Loan Facility is payable in quarterly payments of \$1,125, each commencing October 1, 2017. The maturity date of the Facility is September 15, 2019, which represents an extension from the 2013 Loan Agreement maturity date of July 16, 2018. The Company may make optional prepayments on the Facility without penalty at the end of any LIBOR interest period.

At March 31, 2018, the interest rate for the Term Loan and Revolving Credit Facility is 5.16%. As of March 31, 2018, there was \$38,500 outstanding on the Revolving Credit Facility. The Term Loan Facility requires aggregate principal payments of \$5,625 from April 1, 2018 through June 30, 2019, with a final balloon principal payment of \$17,500 on September 15, 2019. The 2017 Loan agreement also contains various restrictive covenants which limit, among other things, indebtedness and liens, as well as payment of dividends, while requiring a minimum cash balance on hand of \$10,000 and certain financial covenant ratios.

The total available credit on the Revolving Credit Facility at March 31, 2018 was \$4,000. The Company’s ability to access its Revolving Credit Facility is subject to and can be limited by the Company’s compliance with the Company’s financial and other covenants. The Company was in compliance with the financial covenants related to its Revolving Credit Facility as of March 31, 2018.

For the three months ended March 31, 2018 and 2017, interest expense associated with the amortization of debt issuance costs was \$58 and \$112, respectively.

As of March 31, 2018, contractual maturities of the Term Loan net of debt issuance costs, and the Revolving Credit Facility are as follows:

| | <u>Term Loan</u> | <u>Revolving Credit Facility</u> | <u>Total</u> |
|------|------------------|--------------------------------------|-----------------|
| 2018 | \$ 3,201 | \$ — | \$ 3,201 |
| 2019 | 19,576 | 38,500 | 58,076 |
| | <u>\$ 22,777</u> | <u>\$ 38,500</u> | <u>\$61,277</u> |

14. Other long-term liabilities

Other long-term liabilities are as follows:

| | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|---------------------------|---------------------------|------------------------------|
| Acquisition contingencies | \$ 3,700 | \$ — |
| Other | 1,431 | 1,431 |
| | <u>\$ 5,131</u> | <u>\$ 1,431</u> |

Acquisition contingencies represent the Company's preliminary fair value estimate of the Zyga acquisition clinical milestone and revenue earnout contingencies.

15. Income Taxes

The Company expects its deferred tax assets of \$11,929, net of the valuation allowance at March 31, 2018 of \$7,672, to be realized through the generation of future taxable income and the reversal of existing taxable temporary differences.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Legislation"). The Tax Legislation makes broad and complex changes to the U.S. tax code including, but not limited to the following:

- Reduction of the U.S. federal corporate tax rate from 35% to 21%
- Requiring a transition tax on certain unrepatriated earnings of foreign subsidiaries
- Bonus depreciation that will allow for full expensing of qualified property
- Elimination of the corporate alternative minimum tax
- The repeal of the domestic production activity deduction
- Limitations on the deductibility of certain executive compensation
- Limitations on net operating losses generated after December 31, 2017

In addition, beginning in 2018, the Tax Legislation includes a global intangible low-taxed income ("GILTI") provision, which as currently interpreted by the Company, requires a tax on foreign earnings in excess of a deemed return on tangible assets of foreign subsidiaries. The Company has elected an accounting policy to account for GILTI as a period cost if incurred, rather than recognizing deferred taxes for temporary basis differences expected to reverse as a result of GILTI. Other provisions of the Tax Legislation continue to be assessed.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Legislation. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Legislation enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, the Company must reflect the income tax effects of those aspects of the Tax Legislation for which the accounting under ASC 740 is complete. To the extent that the Company's accounting for certain income tax effects of the Tax Legislation is incomplete, but the Company is able to determine a reasonable estimate, it must record a provisional estimate in the consolidated financial statements. If the Company cannot determine a provisional estimate, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Legislation.

In connection with our initial analysis of the impact of the Tax Legislation, the Company has recorded provisional tax expense of \$2,187 in the period ending December 31, 2017. This provisional tax expense consists of \$1,436 to revalue the Company's deferred tax assets using the reduced corporate tax rate and \$751 related to the transition tax. Given the complexity of the Tax Legislation and anticipated guidance from the U.S. Treasury about implementing the Tax Legislation, the Company's analysis and accounting for the income tax effects of the Tax

Legislation is preliminary. The amounts recorded by the Company to revalue its deferred tax assets and impact of the transition tax are estimates. The Company has not fully completed its analysis of certain aspects of the Tax Legislation that could result in adjustments to the revaluation of the Company's deferred tax assets, and its analysis and calculation of foreign earnings subject to the transition tax. Upon completion of the Company's analysis, these estimates may be adjusted through income tax expense in the consolidated financial statement.

The Company evaluates the need for deferred tax asset valuation allowances based on a more likely than not standard. The ability to realize deferred tax assets depends on the ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction.

The assessment regarding whether a valuation allowance is required or should be adjusted also considers all available positive and negative evidence. It is difficult to conclude a valuation allowance is not required when there is significant objective and verifiable negative evidence, such as cumulative losses in recent years. The Company utilizes a rolling three-years of actual results as the primary measure of cumulative losses in recent years.

On a rolling three-year basis, the Company's consolidated U.S. operations are in a cumulative income position. However, one U.S. entity ("Entity") is in a three-year cumulative loss position. Future taxable income exclusive of reversing temporary differences and carryforwards is one source of taxable income available that can be used to realize tax benefits. During 2017, the Company undertook various cost reduction activities to reduce complexity and increase operational excellence within the organization. The Entity anticipates generating significant cost savings from the various cost reduction activities. After adjusting the Entity's cumulative losses to include the projected costs savings, the Entity's operations project future profits sufficient to utilize the Entity's separate state deferred tax assets before expiration. The Company considers this objectively verifiable evidence that all its U.S. deferred tax assets are more likely than not realizable.

The Company's foreign operation is in a three-year cumulative loss position. As a result, the Company has recorded a full valuation allowance on its foreign subsidiary's deferred tax assets.

As such, valuation allowances of \$7,672 and \$7,258 have been established at March 31, 2018 and December 31, 2017, respectively, against a portion of the deferred tax assets.

The Company will continue to regularly assess the realizability of our deferred tax assets. Changes in historical earnings performance and future earnings projections, among other factors, may cause the Company to adjust its valuation allowance, which would impact the Company's income tax expense in the period the Company determines that these factors have changed.

The Company's 2015 U.S. federal income tax return is under examination by the Internal Revenue Service ("IRS"). During the three months ended March 31, 2018, the Company received a noticed of proposed adjustment. The proposed adjustment does not materially impact the Company's condensed consolidated financial statements.

16. Preferred Stock

On June 12, 2013, the Company and WSHP Biologics Holdings, LLC, an affiliate of Water Street Healthcare Partners, a leading healthcare-focused private equity firm ("Water Street"), entered into an investment agreement. Pursuant to the terms of the investment agreement, the Company issued \$50,000 of convertible preferred equity to Water Street in a private placement which closed on July 16, 2013, with preferred stock issuance costs of \$1,290. The preferred stock accrues dividends at a rate of 6% per annum. To the extent dividends are not paid in cash in any quarter, the dividends which have accrued on each outstanding share of preferred stock during such three-month period will accumulate until paid in cash or converted to common stock. Our credit agreement with TD Bank and First Tennessee Bank contains various covenants of financial conditions which, if not met, would restrict the Company from paying dividends.

Preferred stock is as follows:

| | Preferred Stock Liquidation Value | Preferred Stock Issuance Costs | Net Total |
|--|--------------------------------------|-----------------------------------|-----------------|
| Balance at January 1, 2018 | \$ 64,399 | \$ (476) | \$63,923 |
| Accrued dividend payable | 966 | — | 966 |
| Amortization of preferred stock issuance costs | — | 46 | 46 |
| Balance at March 31, 2018 | <u>\$ 65,365</u> | <u>\$ (430)</u> | <u>\$64,935</u> |

17. Severance and Restructuring Costs

The Company recorded severance and restructuring costs related to the reduction of our organizational structure which resulted in \$884 of expenses for the three months ended March 31, 2018. Severance and restructuring payments are made to terminated employees over periods ranging from one month to twelve months and are not expected to have a material impact on cash flows of the Company in any quarterly period. The following table includes a roll-forward of severance and restructuring costs included in accrued expenses, see Note 12.

| | |
|--|-----------------|
| Accrued severance and restructuring costs at January 1, 2018 | \$ 3,279 |
| Severance and restructuring costs accrued in 2018 | 884 |
| Subtotal severance and restructuring costs | 4,163 |
| Severance and restructuring cash payments | (1,401) |
| Accrued severance and restructuring costs at March 31, 2018 | <u>\$ 2,762</u> |

18. Executive Transition Costs

The Company recorded Chief Executive Officer retirement and transition costs related to the retirement of our former Chief Executive Officer pursuant to the Executive Transition Agreement dated August 29, 2012 (as amended and extended to date), which resulted in \$4,404 of expenses for the year ended December 31, 2016. The total Chief Executive Officer retirement and transition costs are expected to be paid in full prior to the first quarter of 2019. In addition, the Company recorded executive transition costs of \$2,781 as a result of hiring a new Chief Executive Officer and Chief Financial and Administrative Officer for the year ended December 31, 2017. The total executive transition costs, of which \$1,169 is cash basis is expected to be paid in full in 2018. The following table includes a roll-forward of executive transition costs included in accrued expenses, see Note 12.

| | |
|---|----------------|
| Accrued executive transition costs at January 1, 2018 | 2,300 |
| Cash payments | (441) |
| Accrued executive transition costs at March 31, 2018 | <u>\$1,859</u> |

19. Legal Actions

The Company is, from time to time, involved in litigation relating to claims arising out of its operations in the ordinary course of business. The Company believes that none of these claims that were outstanding as of March 31, 2018, will have a material adverse impact on its financial position or results of operations.

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

In addition to claims made directly against the Company, Coloplast, a distributor of TSM’s and certain allografts processed and private labeled for them under a contract with the Company, has also been named as a defendant in individual TSM cases in various federal and state courts. Coloplast requested that the Company indemnify or defend Coloplast in those claims which allege injuries caused by the Company’s allograft implants, and on April 24, 2014, Coloplast sued RTI Surgical, Inc. in the Fourth Judicial District of Minnesota for declaratory relief and breach of contract. On December 11, 2014, Coloplast entered into a settlement agreement with RTI Surgical, Inc. and Tutogen Medical, Inc. (the “Company Parties”)

resulting in dismissal of the case. Under the terms of the settlement agreement, the Company Parties are responsible for the defense and indemnification of two categories of present and future claims: (1) tissue only (where Coloplast is solely the distributor of Company processed allograft tissue and no Coloplast-manufactured or distributed synthetic mesh is identified) (“Tissue Only Claims”), and (2) tissue plus non-Coloplast synthetic mesh (“Tissue-Non-Coloplast Claims”) (the Tissue Only Claims and the Tissue-Non-Coloplast Claims being collectively referred to as “Indemnified Claims”). As of March 31, 2018, there are a cumulative total of 1,196 Indemnified Claims for which the Company Parties are providing defense and indemnification. The defense and indemnification of these cases are covered under the Company’s insurance policy subject to a reservation of rights by the insurer.

Based on the current information available to the Company, it is not possible to evaluate and estimate with reasonable certainty the impact that current or any future TSM litigation may have on the Company.

The Company’s accounting policy is to accrue for legal costs as they are incurred.

20. Regulatory Actions

On September 30, 2014, the Company received a letter from the FDA regarding its map3[®] cellular allogeneic bone graft. The letter addresses some technical aspects of the processing of the map3[®] allograft, as well as language included on the Company’s website. Following the 2014 letter, the FDA conducted an on-site inspection of the Company’s Alachua, Florida facility in April 2017 to assess compliance of the manufacturing and quality controls for its map3[®] allograft products to the 21 CFR Part 211 (GMP) regulations. A form 483 was issued by the FDA outlining 9 instances of observed non-compliance. The Company has worked diligently to resolve all cited observations in a timely manner, however, on November 9, 2017, the FDA issued a Warning Letter to the Company related to the map3[®] allograft. The letter reiterated the FDA’s concerns regarding the classification and manufacturing of the map3 allograft. There was no requirement to cease production or to recall distributed allografts from the market. The Company is working diligently and collaboratively with FDA to resolve any concerns regarding the map3[®] allografts and the Company is maintaining ongoing dialogue with the FDA. Comprehensive packages of data have been provided to address the FDA’s comments. The Company has also provided the FDA with clarifying information has been provided regarding the technical components of the implant processing. The Company believes that in both developing and processing of map3[®], the Company has properly considered the relevant regulatory requirements. Additionally, the Company has removed certain information from its website. The Company is committed to resolving the concerns raised by the FDA. However, it is not possible to predict the specific outcome or timing of a resolution at this time.

21. Segment Data

The Company distributes human tissue, bovine and porcine animal tissue, metal and synthetic implants through various distribution channels. The Company operates in one reportable segment composed of four lines of business. Effective January 1, 2018, the reporting of the Company’s lines of business are composed primarily of four categories: spine; sports; original equipment manufacturer (“OEM”) and international. The Company’s previous lines of business were composed of: spine; sports medicine and orthopedics; surgical specialties; cardiothoracic; international; and OEM. Effective January 1, 2018, the other revenues category is included in the OEM line of business. The prior year comparable revenue information has been restated to conform to the current year presentation. The Company believes that the change in the reporting of the Company’s lines of business is aligned with our focused strategy of reducing complexity and better understanding of our lines of business. Additionally, on August 3, 2017, we completed the sale of substantially all of the assets related to our CT Business to A&E Advanced Closure Systems, LLC (a subsidiary of A&E Medical Corporation) (“A&E”). In connection with the CT Business sale, we entered into a multi-year Contract Manufacturing Agreement with A&E whereby we continue to support the CT Business under A&E’s ownership through the manufacturing of existing products, which generates revenue for our OEM business. Discrete financial information is not available for these four lines of business. The following table presents revenues from these four categories for the three months ended March 31, 2018 and 2017, respectively:

| | For the Three Months Ended March 31, | |
|--|---|------------------|
| | 2018 | 2017 |
| Revenues: | | |
| Spine | \$ 19,263 | \$ 20,338 |
| Sports | 13,435 | 14,676 |
| OEM | 30,120 | 25,142 |
| International | 7,072 | 6,632 |
| Cardiothoracic | — | 3,151 |
| Total revenues from contracts with customers | <u>\$ 69,890</u> | <u>\$ 69,939</u> |

The following table presents percentage of total revenues derived from the Company's largest distributors:

| | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2018 | 2017 |
| Percent of revenues derived from: | | |
| Distributor | | |
| Zimmer Biomet Holdings, Inc. | 21% | 14% |
| Medtronic, PLC | 8% | 8% |
| DePuy Synthes | 5% | 4% |

The following table presents property, plant and equipment—net by significant geographic location:

| | March 31, 2018 | December 31, 2017 |
|---|---------------------------|------------------------------|
| Property, plant and equipment - net: | | |
| Domestic | \$ 72,911 | \$ 73,363 |
| International | 6,239 | 6,201 |
| Total | <u>\$ 79,150</u> | <u>\$ 79,564</u> |

22. Subsequent Events

The Company evaluated subsequent events as of the issuance date of the condensed consolidated financial statements as defined by FASB ASC 855 *Subsequent Events*, and identified no subsequent events that require adjustment to, or disclosure of, in these condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Relating to Forward Looking Statements

Information contained in this filing contains "forward-looking statements" which can be identified by the use of forward-looking terminology such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "requires," "hopes," "assumes" or comparable terminology, or by discussions of strategy. There can be no assurance that the future results covered by these forward-looking statements will be achieved. Some of the matters described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2017 or in subsequent Quarterly Reports on Form 10-Q (including this one), constitute cautionary statements which identify some of the factors regarding these forward-looking statements, including certain risks and uncertainties, that could cause actual results to vary materially from the future results indicated in these forward-looking statements. Other factors could also cause actual results to vary materially from the future results indicated in such forward-looking statements.

Management Overview

RTI Surgical is a global surgical implant company that designs, develops, manufactures and distributes biologic, metal and synthetic implants. Our implants are used in orthopedic, spine, sports medicine, general surgery, trauma and other surgical procedures to repair and promote the natural healing of human bone and other human tissues and improve surgical outcomes. We manufacture metal and synthetic implants and process donated human musculoskeletal and other tissue and bovine and porcine animal tissue in producing allograft and xenograft implants using our proprietary BIOCLEANSE[®], TUTOPLAST[®] and CANCELLE[®] SP sterilization processes. We process tissue at our facilities in Alachua, Florida and Neunkirchen, Germany and manufacture metal and synthetic implants in Marquette, Michigan and Greenville, North Carolina. We are accredited in the U.S. by the American Association of Tissue Banks and we are a member of AdvaMed. Our implants are distributed directly to hospitals throughout the U.S. and in more than 40 countries worldwide with the support of both our and third-party representatives as well as through larger purchasing companies. We were founded in 1997 and are headquartered in Alachua, Florida.

Domestic distributions and services accounted for 90% of total revenues in the first three months of 2018. Most of our implants are distributed directly to healthcare providers, hospitals and other healthcare facilities through a direct distribution force and through various OEM relationships.

International distributions and services accounted for 10% of total revenues in the first three months of 2018. Our implants are distributed in over 40 countries through a direct distribution force in Germany and through stocking distributors in the rest of the world outside of Germany and the U.S.

We are implementing a focused strategy to expand our spine and OEM operations and create long-term, profitable growth for the company. In 2017, we introduced a new management team with extensive experience in an effort to spearhead these efforts. The core components of our strategy are:

- *Reduce Complexity.* We are working to reduce complexity in our organization by divesting non-core assets and investing in core competencies.
- *Drive Operational Excellence.* We are working to optimize material cost and drive operational efficiency to reduce other direct costs by pursuing world class manufacturing.
- *Accelerate Growth.* We are investing in innovative, niche high growth product categories leveraging core competency in the spine market; utilizing core technologies to expand OEM relationships and drive organic growth; and building relevant scale in our spinal portfolio to improve importance to the consolidating healthcare market driven by integrated delivery networks and group purchasing organizations.

In line with our strategy, on January 4, 2018, the Company acquired Zyga Technology, Inc. ("Zyga"), a leading spine-focused medical device company that develops and produces innovative minimally invasive devices to treat underserved conditions of the lumbar spine. Zyga's primary product is the Simmetry[®] Sacroiliac Joint Fusion System. Under the terms of the merger agreement dated January 4, 2018, the Company acquired Zyga for \$21.0 million in upfront cash, \$1.0 million contingent upon the successful achievement of a clinical milestone, and a revenue based earnout consideration of up to \$35.0 million. The initial cash payment was funded through \$18.0 million in cash proceeds from the Company's Revolving Credit Facility and \$3.0 million in cash on hand.

We believe this is a significant step toward focusing our business and advancing our efforts to generate predictable and sustainable operating results through disciplined execution and building scale to extend distribution of our products in those areas that offer the greatest opportunities to benefit our patients and shareholders.

We continue to maintain our commitment to research and development and the introduction of new strategically targeted allograft, xenograft, metal and synthetic implants as well as focused clinical efforts to support their acceptance in the marketplace. In addition, we consider strategic acquisitions from time to time for new implants and technologies intended to augment our existing implant offerings, as well as strategic dispositions from time to time in response to market trends or industry developments.

Critical Accounting Policies

There have been no significant changes to our critical accounting policies from those disclosed in our 2017 Annual Report on Form 10-K except for the adoption of the new standard related to revenue recognition, as described in Note 3 to the interim unaudited condensed consolidated financial statements.

Results of Operations

Consolidated Financial Results

The following table reflects revenues for the three months ended March 31, 2018 and 2017, respectively.

| | For the Three Months Ended | |
|-----------------------|-----------------------------------|------------------|
| | March 31, | |
| | 2018 | 2017 |
| | (In thousands) | |
| Revenues: | | |
| Spine | \$ 19,263 | \$ 20,338 |
| Sports | 13,435 | 14,676 |
| OEM | 30,120 | 25,142 |
| International | 7,072 | 6,632 |
| Cardiothoracic | — | 3,151 |
| Total revenues | \$ 69,890 | \$ 69,939 |

Three Months Ended March 31, 2018 Compared With Three Months Ended March 31, 2017

Revenues

Total revenues - Our total revenues of \$69.9 million for the three months ended March 31, 2018 was comparable to the three months ended March 31, 2017. Excluding cardiothoracic revenues for the three months ended March 31, 2017, our total revenues increased \$3.1 million, or 4.6%, primarily due to timing of delivery to certain OEM distributors, primarily in the dental and trauma markets.

Spine - Revenues from spine implants decreased \$1.1 million, or 5.3%, to \$19.3 million for the three months ended March 31, 2018, compared to \$20.3 million for the three months ended March 31, 2017. Spine revenues decreased primarily as a result of decreased distributions of our map3® and nanOss® implants.

Sports - Revenues from sports allografts decreased \$1.2 million, or 8.5%, to \$13.4 million for the three months ended March 31, 2018, compared to \$14.7 million for the three months ended March 31, 2017. Sports revenues decreased primarily as a result of decreased distributions of our BioCleanse® processed tendons.

OEM - Revenues from OEM increased \$5.0 million, or 19.8%, to \$30.1 million for the three months ended March 31, 2018, compared to \$25.1 million for the three months ended March 31, 2017. OEM revenues increased primarily as a result of higher orders and due to timing of delivery to certain OEM distributors, primarily in the dental and trauma markets.

International - Revenues from international include distributions from our foreign affiliates as well as domestic export revenues. International revenues increased \$440,000, or 6.6%, to \$7.1 million for the three months ended March 31, 2018, compared to \$6.6 million for the three months ended March 31, 2017. International revenues increased primarily as a result of higher distributions in Europe due to a strengthened and focused distribution channel.

Cardiothoracic - On August 3, 2017, we completed the sale of substantially all of the assets related to our Cardiothoracic closure business (the “CT Business”) to A&E Advanced Closure Systems, LLC (a subsidiary of A&E Medical Corporation) (“A&E”). Additionally, we have entered into a multi-year Contract Manufacturing Agreement with A&E whereby we continue to support the CT Business under A&E’s ownership through the manufacturing of existing products, which generates revenue for our OEM business.

Costs of Processing and Distribution

Costs of processing and distribution increased \$2.0 million, or 6.0%, to \$36.2 million for the three months ended March 31, 2018, compared to \$34.2 million for the three months ended March 31, 2017. Costs of processing and distribution increased as a percentage of revenues from 48.8% for the three months ended March 31, 2017 to 51.8% for the three months ended March 31, 2018. Costs of processing and distribution as a percentage was negatively impacted by an inventory charge of \$1.0 million as a result of writing-off certain obsolete quantities primarily of bone graft substitute inventory due to the rationalization of our international distribution infrastructure; preliminary purchase accounting step up adjustments to Zyga inventory of \$206,000 charged to costs of processing and distribution as inventory was sold; and changes in distribution mix. Adjusted for the impact of the write-off of obsolete inventory and the purchase accounting step up, costs of processing and distribution were 50.1% for the three months ended March 31, 2018.

Marketing, General and Administrative Expenses

Marketing, general and administrative expenses decreased \$1.3 million, or 4.3%, to \$28.4 million for the three months ended March 31, 2018, from \$29.7 million for the three months ended March 31, 2017. The decrease was primarily due to lower variable compensation and distributor commission expenses on spine and sports revenue distributions. Marketing, general and administrative expenses decreased as a percentage of revenues from 42.4% for the three months ended March 31, 2017 to 40.6% for the three months ended March 31, 2018.

Research and Development Expenses

Research and development expenses decreased \$267,000, or 7.2%, to \$3.4 million for the three months ended March 31, 2018, from \$3.7 million for the three months ended March 31, 2017. The decrease was primarily due to lower compensation expense. Research and development expenses decreased as a percentage of revenues from 5.3% for the three months ended March 31, 2017, to 4.9% for the three months ended March 31, 2018.

Severance and Restructuring Costs

Severance and restructuring costs related to the reduction of our organizational structure, primarily driven by rationalization of our international operating infrastructure, resulted in \$884,000 of expenses for the three months ended March 31, 2018 as compared to \$4.4 million of expenses for the three months ended March 31, 2017.

Acquisition and integration expenses

Acquisition and integration expenses related to the purchase of Zyga resulted in \$800,000 of expenses for the three months ended March 31, 2018. There were no acquisition and integration expenses for the three months ended March 31, 2017.

Net Other Expense

Net other expense, which includes interest expense, interest income and foreign exchange gain, of \$775,000 for the three months ended March 31, 2018 was comparable to the three months ended March 31, 2017.

Income Tax (Provision) Benefit

Income tax provision for the three months ended March 31, 2018, was \$249,000 compared to income tax benefit of \$910,000 for the three months ended March 31, 2017. Our effective tax rate for the three months ended March 31, 2018, was 34.8% compared to 32.7% for the three months ended March 31, 2017. Our effective tax rate for the three months ended March 31, 2018, was positively impacted due to the U.S. federal corporate tax rate decreasing from 35% to 21%. The U.S. federal corporate rate decreased as a result of the Tax Cuts and Jobs Act (the “Tax Legislation”) which was enacted on December 22, 2017. This positive impact was offset by a tax expense of \$202,000 relating to non-deductible executive compensation and tax deficiencies from share-based payment transactions. Adjusted for the impact of the non-deductible executive compensation and tax deficiencies, our effective tax rate was 6.6% for the three months ended March 31, 2018.

Non-GAAP Financial Measures

We utilize certain financial measures that are not calculated based on Generally Accepted Accounting Principles (“GAAP”). Certain of these financial measures are considered “non-GAAP” financial measures within the meaning of Item 10 of Regulation S-K promulgated by the SEC. We believe that non-GAAP financial measures provide an additional way of

viewing aspects of our operations that, when viewed with the GAAP results, provide a more complete understanding of our results of operations and the factors and trends affecting our business. These non-GAAP financial measures are also used by our management to evaluate financial results and to plan and forecast future periods. However, non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Non-GAAP financial measures used by us may differ from the non-GAAP measures used by other companies, including our competitors.

To supplement our unaudited condensed consolidated financial statements presented on a GAAP basis, we disclose certain non-GAAP financial measures that exclude certain amounts, including non-GAAP net income applicable to common shares, adjusted. The calculation of the tax effect on the adjustments between GAAP net loss applicable to common shares and non-GAAP net income applicable to common shares is based upon our estimated annual GAAP tax rate, adjusted to account for items excluded from GAAP net loss applicable to common shares in calculating non-GAAP net income applicable to common shares. Reconciliations of each of these non-GAAP financial measures to the corresponding GAAP measures are included in the reconciliation below:

| | For the Three Months Ended March 31, | |
|---|---|---------------|
| | 2018 | 2017 |
| | (In thousands) | |
| Net loss applicable to common shares, as reported | \$ (1,931) | \$ (2,782) |
| Severance and restructuring costs | 884 | 4,403 |
| Acquisition and integration expenses | 800 | — |
| Inventory obsolescence charge | 1,023 | — |
| Inventory purchase price adjustment | 206 | — |
| Tax effect on adjustments | (493) | (1,482) |
| Non-GAAP net income applicable to common shares, adjusted | <u>\$ 489</u> | <u>\$ 139</u> |

The following is an explanation of the adjustments that management excluded as part of the non-GAAP measures for the three months ended March 31, 2018 and 2017, as well as the reasons for excluding the individual items:

Severance and restructuring costs – This adjustment represents costs relating to the reduction of our organizational structure. Management removes the amount of these costs from our operating results to supplement a comparison to our past operating performance.

Acquisition and integration expenses – This adjustment represents charges relating to acquisition and integration expenses due to the purchase of Zyga. Management removes the amount of these costs from our operating results to supplement a comparison to our past operating performance.

Inventory obsolescence charge – This adjustment represents charges relating to inventory obsolescence due to the rationalization of our international distribution infrastructure. Management removes the amount of these costs from our operating results to supplement a comparison to our past operating performance.

Inventory purchase price adjustment – This adjustment represents the purchase price effects of acquired Zyga inventory that was sold during the three months ended March 31, 2018. Management removes the amount of these costs from our operating results to supplement a comparison to our past operating performance.

Liquidity and Capital Resources

Our working capital at March 31, 2018, decreased \$1.2 million to \$131.5 million from \$132.7 million at December 31, 2017, primarily as a result of the purchase of Zyga. We acquired Zyga for \$21.0 million in upfront cash borrowing \$18.0 million on our revolving credit facility and funded the remaining \$3.0 million through cash on hand.

At March 31, 2018, we had 54 days of revenues outstanding in trade accounts receivable, an increase of 8 days compared to December 31, 2017. The increase was due to lower cash receipts from customers than shipments and corresponding billings to customers during the three months ended March 31, 2018.

At March 31, 2018, we had 280 days of inventory on hand, a decrease of 18 days compared to December 31, 2017. The decrease in inventory days is primarily due to higher distributions and inventory obsolescence due to the rationalization of our international distribution infrastructure during the three months ended March 31, 2018. We believe that our inventory levels will be adequate to support our on-going operations for the next twelve months.

We had \$13.8 million of cash and cash equivalents at March 31, 2018. At March 31, 2018, our foreign subsidiaries held \$1.3 million in cash. We intend to indefinitely reinvest the earnings of our foreign subsidiaries. We do not believe that this policy of indefinitely reinvesting the earnings of our foreign subsidiaries will have a material adverse effect on the business as a whole.

Our short and long-term obligations at March 31, 2018, increased \$14.9 million to \$61.3 million from \$46.3 million at December 31, 2017. The increase in short and long-term obligations was primarily due to the purchase of Zyga.

On January 4, 2018, the Company acquired Zyga, as discussed above under “Management Overview.”

The Company entered into a Third Amended and Restated Loan Agreement, dated as of August 3, 2017 (the “2017 Loan Agreement”), among the Company, TD Bank, N.A. and First Tennessee Bank National Association, as Lenders (together with the various financial institutions as in the future may become parties thereto, the “Lenders”), and TD Bank, N.A., as administrative agent for the Lenders. The 2017 Loan Agreement represents a modification of the Second Amended and Restated Loan Agreement dated July 16, 2013 between the Company, TD Bank, N.A. and Regions Bank (as amended, the “2013 Loan Agreement”).

The 2017 Loan Agreement provides for a revolving credit facility (the “Revolving Credit Facility”), in the aggregate principal amount of \$42.5 million. The Company used \$22.0 million of the proceeds from the sale of the CT Business to partially pay down amounts owed under the 2013 Loan Agreement, and \$10.0 million to pay down amounts owed under the Revolving Credit Facility. Subsequent to the pay down, the outstanding principal balance on the 2013 Loan Agreement Term Loan amounted to \$25.4 million which became the principal amount of the 2017 Loan Agreement (the “Term Loan Facility” and, together with the Revolving Credit Facility the “Facility”). The Facility is secured by substantially all the assets of the Company and its domestic subsidiaries and is guaranteed by the Company’s domestic subsidiaries, as well as 65% of the stock of the Company’s foreign subsidiaries.

Borrowings made under the 2017 Loan Agreement initially will bear interest at a rate per annum equal to monthly LIBOR plus a margin of up to 3.50%. Interest is payable quarterly in arrears, and principal on the Term Loan Facility is payable in quarterly payments of \$1.1 million, each commencing October 1, 2017. The maturity date of the Facility is September 15, 2019, which represents an extension from the 2013 Loan Agreement maturity date of July 16, 2018. The Company may make optional prepayments on the Facility without penalty at the end of any LIBOR interest period.

At March 31, 2018, the interest rate for the Term Loan and Revolving Credit Facility is 5.16%. As of March 31, 2018, there was \$38.5 million outstanding on the Revolving Credit Facility. The Term Loan Facility requires aggregate principal payments of \$5.6 million from April 1, 2018 through June 30, 2019, with a final balloon principal payment of \$17.5 million on September 15, 2019. The 2017 Loan Agreement also contains various restrictive covenants which limit, among other things, indebtedness and liens, as well as payment of dividends, while requiring a minimum cash balance on hand of \$10.0 million and certain financial covenant ratios.

The total available credit on the Revolving Credit Facility at March 31, 2018 was \$4.0 million. The Company’s ability to access its Revolving Credit Facility is subject to and can be limited by the Company’s compliance with the Company’s financial and other covenants. The Company was in compliance with the financial covenants related to its Revolving Credit Facility as of March 31, 2018.

As of March 31, 2018, we believe that our working capital, together with our borrowing ability under the Revolving Credit Facility, will be adequate to fund our ongoing operations for the next twelve months.

As of March 31, 2018, we have no material off-balance sheet arrangements.

Certain Commitments.

Our long-term debt obligations and availability of credit as of March 31, 2018 are as follows:

| | <u>Outstanding Balance</u> | <u>Available Credit</u> |
|-----------------|--------------------------------|-----------------------------|
| | (In thousands) | |
| Term loan | \$ 22,777 | \$ — |
| Credit facility | 38,500 | 4,000 |
| Total | <u>\$ 61,277</u> | <u>\$ 4,000</u> |

The following table provides a summary of our long-term debt obligations, operating lease obligations and other significant obligations as of March 31, 2018.

| | <u>Contractual Obligations Due by Period</u> | | | | |
|-----------------------------|--|-----------------------------|------------------|------------------|------------------------------|
| | <u>Total</u> | <u>Less than 1 Year</u> | <u>1-3 Years</u> | <u>4-5 Years</u> | <u>More than 5 Years</u> |
| | (In thousands) | | | | |
| Long-term debt obligations | \$61,277 | \$ 3,201 | \$58,076 | \$ — | \$ — |
| Operating lease obligations | 2,792 | 1,168 | 1,624 | — | — |
| Purchase obligations (1) | 15,283 | 15,283 | — | — | — |
| Income taxes payable | 710 | — | 186 | 124 | 400 |
| Total | <u>\$80,062</u> | <u>\$19,652</u> | <u>\$59,886</u> | <u>\$ 124</u> | <u>\$ 400</u> |

(1) These amounts consist of contractual obligations for capital expenditures and open purchase orders.

We were in compliance with the financial covenants related to the Revolving Credit Facility as of March 31, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risk from exposure to changes in interest rates based upon our financing, investing and cash management activities. We are exposed to interest rate risk in the United States and Germany. Changes in interest rates affect interest income earned on cash and cash equivalents and interest expense on revolving credit arrangements. We have not entered into derivative transactions related to cash and cash equivalents or debt. Our borrowings under our term loan and credit facility expose us to market risk related to changes in interest rates. As of March 31, 2018, our outstanding floating rate indebtedness totaled \$61.3 million. The primary base interest rate is LIBOR. Other outstanding debt consists of fixed rate instruments. We do not expect changes in interest rates to have a material adverse effect on our income or our cash flows in 2018. However, we can give no assurance that interest rates will not significantly change in the future.

The value of the U.S. dollar compared to the Euro affects our financial results. Changes in exchange rates may positively or negatively affect revenues, gross margins, operating expenses and net income. Our international operations currently transact business primarily in the Euro. Assets and liabilities of foreign subsidiaries are translated at the period end exchange rate while revenues and expenses are translated at the average exchange rate for the period. Intercompany transactions are translated from the Euro to the U.S. dollar. We do not expect changes in exchange rates to have a material adverse effect on our income or our cash flows for the remainder of 2018. However, we can give no assurance that exchange rates will not significantly change in the future.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed on the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Disclosure controls and procedures include controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in our internal control over financial reporting during our last fiscal quarter that materially affected, or are reasonably likely to materially affect our internal control over financial reporting, except that we implemented changes in our internal controls to ensure we adequately evaluate our contracts and properly assess the impact of the new accounting standard related to revenue recognition on our financial statements which was adopted on January 1, 2018.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is, from time to time, involved in litigation relating to claims arising out of its operations in the ordinary course of business. The Company believes that none of these claims that were outstanding as of March 31, 2018 will have a material adverse impact on its financial position or results of operations.

For a further description, we refer you to Part I, Item 1, Note 19 entitled “Legal Actions” to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for a description of current legal proceedings.

Item 1A. Risk Factors

There has been no material change in our risk factors as previously disclosed in Part I, Item 1.A., Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on March 2, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information with respect to our repurchases of our common stock during the three months ended March 31, 2018.

| <u>Period</u> | <u>Total Number of Shares Purchased (1)</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u> |
|---------------------------------------|---|---|---|---|
| January 1, 2018 to January 31, 2018 | 81,830 | \$ 4.44 | — | — |
| February 1, 2018 to February 28, 2018 | — | — | — | — |
| March 1, 2018 to March 31, 2018 | — | — | — | — |
| Total | <u>81,830</u> | <u>\$ 4.44</u> | <u>—</u> | <u>—</u> |

- (1) The purchases include amounts that are attributable to shares surrendered to us by employees to satisfy, in connection with the vesting of restricted stock awards, their tax withholdings obligations.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

- 3.1⁽¹⁾ [Amended and Restated Certificate of Incorporation of RTI Surgical, Inc.](#)
- 3.2⁽²⁾ [Amended and Restated Bylaws of RTI Surgical, Inc.](#)
- 10.1 [RTI Surgical, Inc. 2018 Incentive Compensation Plan.](#)
- 10.2 [Form of Incentive Stock Option Agreement \(under 2018 Plan\).](#)
- 10.3 [Form of Nonqualified Stock Option Agreement \(under 2018 Plan\).](#)
- 10.4 [Form of Restricted Stock Agreement \(under 2018 Plan\).](#)
- 31.1 [Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14\(a\)/15d-14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14\(a\)/15d-14\(a\) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

⁽¹⁾ Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-31271) filed by the Registrant on March 7, 2016.

⁽²⁾ Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-31271) filed by the Registrant on July 11, 2016.

**RTI SURGICAL, INC.
2018 INCENTIVE COMPENSATION PLAN**

RTI SURGICAL, INC.
2018 INCENTIVE COMPENSATION PLAN

| | | |
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RTI SURGICAL, INC.
2018 INCENTIVE COMPENSATION PLAN

1. **Purpose.** The purpose of this RTI SURGICAL, INC. 2018 INCENTIVE COMPENSATION PLAN (the “Plan”) is to assist RTI SURGICAL, INC., a Delaware corporation (the “Company”) and its Related Entities (as hereinafter defined) in attracting, motivating, retaining and rewarding high-quality executives and other employees, officers, directors and consultants to the Company or its Related Entities by enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company’s shareholders, and providing such persons with performance incentives to expend their maximum efforts in the creation of shareholder value.

2. **Definitions.** For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof and elsewhere herein.

(a) “**Award**” means any Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Share granted as a bonus or in lieu of another Award, Dividend Equivalent, Other Stock-Based Award or Performance Award, together with any other right or interest relating to Shares or other property (including cash), granted to a Participant under the Plan.

(b) “**Award Agreement**” means any written agreement, contract or other instrument or document evidencing any Award granted by the Committee hereunder.

(c) “**Beneficiary**” means the person, persons, trust or trusts that have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Plan upon such Participant’s death or to which Awards or other rights are transferred if and to the extent permitted under Section 9(b) hereof. If, upon a Participant’s death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

(d) “**Beneficial Owner**” and “**Beneficial Ownership**” shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act and any successor to such Rule.

(e) “**Board**” means the Company’s Board of Directors.

(f) “**Cause**” shall, with respect to any Participant, have the meaning specified in the Award Agreement. In the absence of any definition in the Award Agreement, “Cause” shall have the equivalent meaning or the same meaning as “cause” or “for cause” set forth in any employment, consulting, or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement or any such definition in such agreement, such term shall mean (i) the failure by the Participant to perform, in a reasonable manner, his or her duties as assigned by the Company or a Related Entity; (ii) any violation or breach by the Participant of his or her employment, consulting or other similar agreement with the Company or a Related Entity, if any; (iii) any violation or breach by the Participant of any non-competition, non-solicitation, non-disclosure and/or other similar agreement with the Company or a Related Entity; (iv) any act by the Participant of dishonesty or bad faith with respect to the Company or a Related Entity; (v) any material violation or breach by the Participant of the Company’s or Related Entity’s policy for employee conduct, if any; (vi) use of alcohol, drugs or other similar substances in a manner that adversely affects the Participant’s work performance, or (vii) the commission by the Participant of any act, misdemeanor, or crime reflecting unfavorably upon the Participant or the Company or any Related Entity. The good faith determination by the Committee of whether the Participant’s Continuous Service was terminated by the Company for “Cause” shall be final and binding for all purposes hereunder.

(g) “**Change in Control**” means a Change in Control as defined in Section 8(b) of the Plan.

(h) “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(i) “**Committee**” means the Compensation Committee of the Board or a subcommittee thereof formed by the Compensation Committee to act as the Committee under this Plan; provided, however, that if the Board fails to designate a committee or if there are no longer any members on the committee so designated by the Board, or for any other reason determined by the Board, then the Board shall serve as the Committee. While it is intended that the Committee shall consist of at least two directors, each of whom shall be (i) a “non-employee director” within the meaning of Rule 16b-3 (or any successor rule) under the Exchange Act, unless administration of the Plan by “non-employee directors” is not then required in order for exemptions under Rule 16b-3 to apply to transactions under the Plan, and (ii) “Independent”, the failure of the Committee to be so comprised shall not invalidate any Award that otherwise satisfies the terms of the Plan.

(j) “**Consultant**” means any consultant or advisor who is a natural person and who provides services to the Company or any Related Entity, so long as such person (i) renders bona fide services that are not in connection with the offer and sale of the Company’s securities in a capital-raising transaction, (ii) does not directly or indirectly promote or maintain a market for the Company’s securities and (iii) otherwise qualifies as a de facto employee or consultant under the applicable rules of the Securities and Exchange Commission for registration of shares of stock on a Form S-8 registration statement.

(k) “**Continuous Service**” means the uninterrupted provision of services to the Company or any Related Entity in any capacity of Employee, Director or Consultant. Continuous Service shall not be considered to be interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entities, or any successor entities, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.

(l) “**Director**” means a member of the Board or the board of directors of any Related Entity.

(m) “**Disability**” means a Participant’s eligibility to receive long-term disability benefits under a plan sponsored by the Company or a Related Entity, or if no such plan is applicable, a Participant’s inability to perform the essential functions of his or her duties due to a medically-determinable physical or mental impairment, illness or injury, which can be expected to result in death or to be of long-continued and indefinite duration as determined in the sole discretion of the Committee. Notwithstanding the foregoing, in the case of any Option that is an Incentive Stock Option, if and to the extent required in order for the Option to satisfy the requirements of Section 422 of the Code, the term “Disability” means disabled within the meaning of Section 22(e)(3) of the Code.

(n) “**Dividend Equivalent**” means a right, granted to a Participant under Section 6(g) hereof, to receive cash, Shares, other Awards or other property equal in value to dividends paid with respect to a specified number of Shares, or other periodic payments.

(o) “**Effective Date**” means the effective date of the Plan, which shall be May 1, 2018, provided that no awards will be granted unless and until the shareholders of the Company approve the Plan no later than April 29, 2019.

(p) “**Eligible Person**” means each officer, Director, Employee or Consultant to the Company or any Related Entity. The foregoing notwithstanding, only Employees of the Company, or any parent corporation or subsidiary corporation of the Company (as those terms are defined in Sections 424(e) and (f) of the Code, respectively), shall be Eligible Persons for purposes of receiving any Incentive Stock Options. An Employee on leave of absence may, in the discretion of the Committee, be considered as still in the employ of the Company or a Related Entity for purposes of eligibility for participation in the Plan.

(q) “**Employee**” means any person, including an officer or Director, who is an employee of the Company or any Related Entity, or is a prospective employee of the Company or any Related Entity (conditioned upon and effective not earlier than such person becoming an employee of the Company or any Related Entity). The payment of a director’s fee by the Company or a Related Entity shall not be sufficient to constitute “employment” by the Company.

(r) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(s) “**Fair Market Value**” means the fair market value of Shares, Awards or other property as determined by the Committee, or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a Share as of any given date shall be the closing sale price per Share reported on a consolidated basis for stock listed on the principal stock exchange or market on which Shares are traded on the date as of which such value is being determined (or as of such later measurement date as determined by the Committee on the date the Award is authorized by the Committee), or, if there is no sale on that date, then on the last previous day on which a sale was reported.

(t) “**Good Reason**” shall, with respect to any Participant, have the meaning specified in the Award Agreement. In the absence of any definition in the Award Agreement, “Good Reason” shall have the equivalent meaning or the same meaning as “good reason” or “for good reason” set forth in any employment, consulting or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement or any such definition in such agreement, such term shall mean (i) the assignment to the Participant of any duties inconsistent in any material respect with the Participant’s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as assigned by the Company or Related Entity, or any other action by the Company or a Related Entity which results in a material diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company or a Related Entity promptly after receipt of notice thereof given by the Participant; (ii) any material failure by the Company or a Related Entity to comply with its obligations to the Participant as agreed upon, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company or a Related Entity promptly after receipt of notice thereof given by the Participant; (iii) the Company’s or Related Entity’s requiring the Participant to be based at any office or location outside of fifty (50) miles from the location of employment or service as of the date of Award, except for travel reasonably required in the performance of the Participant’s responsibilities; (iv) any purported termination by the Company or Related Entity of the Participant’s Continuous Service other than for Cause, death or by reason of the Participant’s Disability, or (v) any material reduction in the Participant’s base salary (unless such reduction is part of a Company-wide reduction that affects a majority of the persons of comparable level to the Participant).

(u) “**Incentive Stock Option**” means any Option intended to be designated as an incentive stock option within the meaning of Section 422 of the Code or any successor provision thereto.

(v) “**Independent**”, when referring to either the Board or members of the Committee, shall have the same meaning as used in the rules of the Listing Market.

(w) “**Incumbent Board**” means the Incumbent Board as defined in Section 8(b)(ii) hereof.

(x) “**Listing Market**” means the NASDAQ Stock Market or any other national securities exchange on which any securities of the Company are listed for trading.

(y) “**Option**” means a right granted to a Participant under Section 6(b) hereof, to purchase Shares or other Awards at a specified price during specified time periods.

(z) “**Optionee**” means a person to whom an Option is granted under this Plan or any person who succeeds to the rights of such person under this Plan.

(aa) “**Other Stock-Based Awards**” means Awards granted to a Participant under Section 6(i) hereof.

(bb) “**Participant**” means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.

(cc) “**Performance Award**” means any Award of Performance Shares or Performance Units granted pursuant to Section 6(h) hereof.

(dd) “**Performance Period**” means that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.

(ee) “**Performance Share**” means any grant pursuant to Section 6(h) hereof of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.

(ff) “**Performance Unit**” means any grant pursuant to Section 6(h) hereof of a unit valued by reference to a designated amount of property (including cash) other than Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.

(gg) “**Person**” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, and shall include a “group” as defined in Section 13(d) thereof.

(hh) “**Prior Plans**” means collectively, the RTI Surgical Inc. 2015 Incentive Compensation Plan, the RTI Surgical, Inc. 2010 Equity Incentive Plan (f/k/a the RTI Biologics, Inc. 2010 Equity Incentive Plan), the Regeneration Technologies, Inc. 2004 Equity Incentive Plan, the Regeneration Technologies, Inc. 1998 Stock Option Plan; the Tutogen Medical, Inc. 2006 Incentive and Non-Statutory Stock Option Plan and the Tutogen Medical, Inc. 1996 Stock Option Plan, as each may have been amended from time to time.

(ii) “**Related Entity**” means any Subsidiary, and any business, corporation, partnership, limited liability company or other entity designated by the Board, in which the Company or a Subsidiary holds a substantial ownership interest, directly or indirectly.

(jj) “**Restricted Stock**” means any Share issued with such risks of forfeiture and other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends on vested Shares), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

(kk) “**Restricted Stock Award**” means an Award granted to a Participant under Section 6(d) hereof.

(ll) “**Restricted Stock Unit**” means a right to receive Shares, including Restricted Stock, cash measured based upon the value of Shares or a combination thereof, at the end of a specified deferral period.

(mm) “**Restricted Stock Unit Award**” means an Award of Restricted Stock Unit granted to a Participant under Section 6(e) hereof.

(nn) “**Restriction Period**” means the period of time specified by the Committee that Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose.

(oo) “**Rule 16b-3**” means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(pp) “**Shares**” means the shares of common stock of the Company, and such other securities as may be substituted (or resubstituted) for Shares pursuant to Section 9(c) hereof.

(qq) “**Stock Appreciation Right**” means a right granted to a Participant under Section 6(c) hereof.

(rr) “**Subsidiary**” means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity entitled to vote generally in the election of directors or in which the Company has the right to receive 50% or more of the distribution of profits or 50% or more of the assets on liquidation or dissolution.

(ss) “**Substitute Awards**” means Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, Awards previously granted, or the right or obligation to make future Awards, by an entity, (i) acquired by the Company or any Related Entity, (ii) which becomes a Related Entity after the date hereof, or (iii) with which the Company or any Related Entity combines.

3. **Administration.**

(a) **Authority of the Committee.** The Plan shall be administered by the Committee, except to the extent (and subject to the limitations imposed by Section 3(b) hereof) the Board elects to administer the Plan, in which case the Plan shall be administered by only those members of the Board who are Independent members of the Board, in which case references herein to the “Committee” shall be deemed to include references to the Independent members of the Board. The Committee shall have full and final authority, subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award Agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, construe and interpret the Plan and Award Agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. In exercising any discretion granted to the Committee under the Plan or pursuant to any Award, the Committee shall not be required to follow past practices, act in a manner consistent with past practices, or treat any Eligible Person or Participant in a manner consistent with the treatment of any other Eligible Persons or Participants. Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Subsidiary or any Participant or Beneficiary, or any transferee under Section 9(b) hereof or any other person claiming rights from or through any of the foregoing persons or entities.

(b) **Manner of Exercise of Committee Authority.** The Committee, and not the Board, shall exercise sole and exclusive discretion on any matter relating to a Participant then subject to Section 16 of the Exchange Act with respect to the Company to the extent necessary in order that transactions by such Participant shall be exempt under Rule 16b-3 under the Exchange Act. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to members of the Board, or officers or managers of the Company or any Related Entity, or committees thereof, the authority, subject to such terms and limitations as the Committee shall determine, to perform such functions, including administrative functions as the Committee may determine to the extent that such delegation will not result in the loss of an exemption under Rule 16b-3(d)(1) for Awards granted to Participants subject to Section 16 of the Exchange Act in respect of the Company. The Committee may appoint agents to assist it in administering the Plan.

(c) **Limitation of Liability.** The Committee and the Board, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or

Employee, the Company's independent auditors, Consultants or any other agents assisting in the administration of the Plan. Members of the Committee and the Board, and any officer or Employee acting at the direction or on behalf of the Committee or the Board, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

4. Shares Subject to Plan.

(a) **Limitation on Overall Number of Shares Available for Delivery Under Plan.** Subject to adjustment as provided in Section 9(c) hereof, the total number of Shares reserved and available for delivery under the Plan shall be equal to (i) 5,000,000, plus (ii) the shares remaining available for awards under the RTI Surgical Inc. 2015 Incentive Compensation Plan, all of which shall be available for Incentive Stock Options. Any Shares delivered under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) **Application of Limitation to Grants of Awards.** No Award may be granted if the number of Shares to be delivered in connection with such an Award exceeds the number of Shares remaining available for delivery under the Plan, minus the number of Shares deliverable in settlement of or relating to then outstanding Awards. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of Shares actually delivered differs from the number of Shares previously counted in connection with an Award.

(c) Availability of Shares Not Delivered under Awards and Adjustments to Limits.

(i) If any Shares subject to an Award are forfeited or expire, then such non-issued Shares shall again be available for delivery and shall not be counted against the total number of Shares available under the Plan. However, notwithstanding the previous sentence or anything herein to the contrary, if any Shares subjected to an Award are not delivered to a Participant because such Shares: (i) are tendered as payment for an option exercise; (ii) are withheld from exercised shares to cover taxes, including all Awards to cover full value Awards and appreciation awards; (iii) have been repurchased by the Company using stock option exercise proceeds; or (iv) have been used to settle any SAR, then such non-delivered Shares shall not return to the pool of Shares available for delivery under the Plan and shall be counted against the total number of Shares available under the Plan.

(ii) Substitute Awards shall not reduce the Shares authorized for delivery under the Plan or authorized for delivery to a Participant in any period. Additionally, in the event that an entity acquired by the Company or any Related Entity or with which the Company or any Related Entity combined has shares available under a pre-existing plan approved by its shareholders and not adopted in contemplation of such acquisition or combination, the shares available for delivery pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for delivery under the Plan if and to the extent that the use of such Shares would not require approval of the Company's shareholders under the rules of the Listing Market.

(iii) Any Share that again becomes available for delivery pursuant to this Section 4(c) shall be added back as one (1) Share.

(iv) Notwithstanding anything in this Section 4(c) to the contrary but subject to adjustment as provided in Section 9(c) hereof, the maximum aggregate number of Shares that may be delivered under the Plan as a result of the exercise of the Incentive Stock Options shall be 5,000,000 Shares.

(v) Notwithstanding anything in this Section 4 to the contrary, but subject to adjustment as provided in Section 9(c) hereof, in any fiscal year of the Company during any part of which the Plan is in effect, no Participant who is a Director but is not also an Employee or Consultant may be granted any Awards that have a “fair value” as of the date of grant, as determined in accordance with FASB ASC Topic 718 (or any other applicable accounting guidance), that exceed \$1,000,000 in the aggregate.

(d) **No Further Awards Under Prior Plans.** In light of the adoption of this Plan, no further awards shall be made under the Prior Plans on and after the Effective Date.

5. **Eligibility; Per-Participant Limitations.** Awards may be granted under the Plan only to Eligible Persons. Subject to adjustment as provided in Section 9(c) of this Plan, in any fiscal year of the Company during any part of which the Plan is in effect, no Participant may be granted Options and/or Stock Appreciation Rights with respect to more than **500,000** Shares.

6. **Specific Terms of Awards.**

(a) **General.** Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 9(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of the Participant’s Continuous Service and terms permitting a Participant to make elections relating to his or her Award. Except as otherwise expressly provided herein, the Committee shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under the Plan. Except in cases in which the Committee is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration must be paid to satisfy the requirements of Delaware law, no consideration other than services may be required for the grant (as opposed to the exercise) of any Award.

(b) **Options.** The Committee is authorized to grant Options to any Eligible Person on the following terms and conditions:

(i) **Exercise Price.** Other than in connection with Substitute Awards, the exercise price per Share purchasable under an Option shall be determined by the Committee, provided that such exercise price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of the Option and shall not, in any event, be less than the par value of a Share on the date of grant of the Option. If an Employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and an Incentive Stock Option is granted to such Employee, the exercise price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than 110% of the Fair Market Value of a Share on the date such Incentive Stock Option is granted. Other than pursuant to Section 9 (c)(i) and (ii) of this Plan, the Committee shall not be permitted to (A) lower the exercise price per Share of an Option after it is granted, (B) cancel an Option when the exercise price per Share exceeds the Fair Market Value of the underlying Shares in exchange for cash or another Award, (C) cancel an outstanding Option in exchange for an Option with an exercise price that is less than the exercise price of the original Options or (D) take any other action with respect to an Option that may be treated as a repricing pursuant to the applicable rules of the Listing Market, without approval of the Company’s shareholders.

(ii) **Time and Method of Exercise.** The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Options shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the methods by which the exercise price may be paid or deemed to be paid (including in the discretion of the Committee a cashless

exercise procedure), the form of such payment, including, without limitation, cash, Shares (including without limitation the withholding of Shares otherwise deliverable pursuant to the Award), other Awards or awards granted under other plans of the Company or a Related Entity, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis provided that such deferred payments are not in violation of Section 13(k) of the Exchange Act, or any rule or regulation adopted thereunder or any other applicable law), and the methods by or forms in which Shares will be delivered or deemed to be delivered to Participants.

(iii) **Incentive Stock Options.** The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options (including any Stock Appreciation Right issued in tandem therewith) shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any Incentive Stock Option under Section 422 of the Code, unless the Participant has first requested, or consents to, the change that will result in such disqualification. Thus, if and to the extent required to comply with Section 422 of the Code, Options granted as Incentive Stock Options shall be subject to the following special terms and conditions:

(A) the Option shall not be exercisable for more than ten years after the date such Incentive Stock Option is granted; provided, however, that if a Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and the Incentive Stock Option is granted to such Participant, the term of the Incentive Stock Option shall be (to the extent required by the Code at the time of the grant) for no more than five years from the date of grant;

(B) The aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the Shares with respect to which Incentive Stock Options granted under the Plan and all other option plans of the Company (and any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) that become exercisable for the first time by the Participant during any calendar year shall not (to the extent required by the Code at the time of the grant) exceed \$100,000; and

(C) if shares acquired by exercise of an Incentive Stock Option are disposed of within two years following the date the Incentive Stock Option is granted or one year following the transfer of such Shares to the Participant upon exercise, the Participant shall, promptly following such disposition, notify the Company in writing of the date and terms of such disposition and provide such other information regarding the disposition as the Committee may reasonably require.

(c) **Stock Appreciation Rights.** The Committee may grant Stock Appreciation Rights to any Eligible Person in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option (a “**Tandem Stock Appreciation Right**”), or without regard to any Option (a “**Freestanding Stock Appreciation Right**”), in each case upon such terms and conditions as the Committee may establish in its sole discretion, not inconsistent with the provisions of the Plan, including the following:

(i) **Right to Payment.** A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one Share on the date of exercise over (B) the grant price of the Stock Appreciation Right as determined by the Committee. The grant price of a Stock Appreciation Right shall not be less than 100% of the Fair Market Value of a Share on the date of grant; provided, however, that if and to the extent that it would not violate Section 409A of the Code, the grant price for a Stock Appreciation Right that is granted as a Substitute Award for an outstanding Option may be lower than 100% of the Fair Market Value of a Share on the date of grant of the Stock Appreciation Right if it is not less than the exercise price of the Option for which it is substituted. Other than pursuant to Section 9(c)(i) and

(ii) of this Plan, the Committee shall not be permitted to (A) lower the grant price per Share of a Stock Appreciation Right after it is granted, (B) cancel a Stock Appreciation Right when the grant price per Share exceeds the Fair Market Value of the underlying Shares in exchange for cash or another Award, (C) cancel an outstanding Stock Appreciation Right in exchange for a Stock Appreciation Right with a grant price that is less than the grant price of the original Stock Appreciation Right, or (D) take any other action with respect to a Stock Appreciation Right that may be treated as a repricing pursuant to the applicable rules of the Listing Market, without shareholder approval.

(ii) **Other Terms.** The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a Stock Appreciation Right may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Stock Appreciation Rights shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Shares will be delivered or deemed to be delivered to Participants, whether or not a Stock Appreciation Right shall be in tandem or in combination with any other Award, and any other terms and conditions of any Stock Appreciation Right.

(iii) **Tandem Stock Appreciation Rights.** Any Tandem Stock Appreciation Right may be granted at the same time as or subsequently to the related Option is granted. Any Tandem Stock Appreciation Right related to an Option may be exercised only when the related Option would be exercisable and the Fair Market Value of the Shares subject to the related Option exceeds the exercise price at which Shares can be acquired pursuant to the Option. In addition, if a Tandem Stock Appreciation Right exists with respect to less than the full number of Shares covered by a related Option, then an exercise or termination of such Option shall not reduce the number of Shares to which the Tandem Stock Appreciation Right applies until the number of Shares then exercisable under such Option equals the number of Shares to which the Tandem Stock Appreciation Right applies. Any Option related to a Tandem Stock Appreciation Right shall no longer be exercisable to the extent the Tandem Stock Appreciation Right has been exercised, and any Tandem Stock Appreciation Right shall no longer be exercisable to the extent the related Option has been exercised.

(d) **Restricted Stock Awards.** The Committee is authorized to grant Restricted Stock Awards to any Eligible Person on the following terms and conditions:

(i) **Grant and Restrictions.** Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, or as otherwise provided in this Plan during the Restriction Period. The terms of any Restricted Stock Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award Agreement relating to a Restricted Stock Award, a Participant granted Restricted Stock shall have all of the rights of a shareholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee), but, notwithstanding anything to the contrary herein or in any Award Agreement, only to the extent that the Participant's Restricted Stock Award has vested. In accordance with Section 6(d)(iv) below, dividends may be issued on a Participant's unvested Restricted Stock but shall be subject to the vesting schedule applicable to the unvested Restricted Stock and delivered only upon the underlying Shares vesting. During the period that the Restricted Stock Award is subject to a risk of forfeiture, subject to Section 9(b) below and except as otherwise provided in the Award Agreement, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant or Beneficiary.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable Restriction Period, the Participant's Restricted Stock that

is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited and reacquired by the Company; provided that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to Restricted Stock Awards shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Stock.

(iii) **Certificates for Stock.** Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) **Dividends and Splits.** As a condition to the grant of a Restricted Stock Award, the Committee may require or permit a Participant to elect that any cash dividends paid on a Share of Restricted Stock be automatically reinvested in additional Shares of Restricted Stock or applied to the purchase of additional Awards under the Plan. For dividends issuable on the unvested portion of a Restricted Stock Award, except as otherwise provided in the last sentence of Section 6(h) hereof, the Committee will require that payment be delayed (with or without interest at such rate, if any, as the Committee shall determine) and remain subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such cash dividend is payable, in each case in a manner that does not violate the requirements of Section 409A of the Code. Unless otherwise determined by the Committee, Shares distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Shares or other property have been distributed.

(e) **Restricted Stock Unit Award.** The Committee is authorized to grant Restricted Stock Unit Awards to any Eligible Person on the following terms and conditions:

(i) **Award and Restrictions.** Satisfaction of a Restricted Stock Unit Award shall occur upon expiration of the deferral period specified for such Restricted Stock Unit Award by the Committee (or, if permitted by the Committee, as elected by the Participant in a manner that does not violate the requirements of Section 409A of the Code). In addition, a Restricted Stock Unit Award shall be subject to such restrictions as the Committee may impose, which shall include a minimum vesting requirement in accordance with Section 7(f) herein, and which restrictions may lapse at the expiration of the deferral period or at other specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine. A Restricted Stock Unit Award may be satisfied by delivery of Shares, cash equal to the Fair Market Value of the specified number of Shares covered by the Restricted Stock Units, or a combination thereof, as determined by the Committee at the date of grant or thereafter. Prior to satisfaction of a Restricted Stock Unit Award, a Restricted Stock Unit Award carries no voting or dividend or other rights associated with Share ownership. Prior to satisfaction of a Restricted Stock Unit Award, except as otherwise provided in an Award Agreement and as permitted under Section 409A of the Code, a Restricted Stock Unit Award may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant or any Beneficiary.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award Agreement evidencing the Restricted Stock Unit Award), the Participant's Restricted Stock Unit Award that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited; provided that the Committee may provide, by resolution or action or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to a Restricted Stock Unit Award shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of any Restricted Stock Unit Award.

(iii) **Dividend Equivalents.** Unless otherwise determined by the Committee at the date of grant, and except as otherwise provided in the last sentence of Section 6(h) hereof, any Dividend Equivalents that are granted with respect to any Restricted Stock Unit Award shall be either (A) paid with respect to such Restricted Stock Unit Award at the dividend payment date in cash or in Shares of unrestricted stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Restricted Stock Unit Award and whether the amount or value thereof shall be automatically deemed reinvested in additional Restricted Stock Units or other Awards, or if not so reinvested whether the amount shall earn interest and at what rate for the period deferred, shall either be determined by the Committee or the Committee shall permit the Participant to elect. The applicable Award Agreement shall specify whether any Dividend Equivalents shall be paid at the dividend payment date, deferred or deferred at the election of the Participant. If the Participant may elect to defer the Dividend Equivalents, such election shall be made at such other times prescribed by the Committee as shall not result in a violation of Section 409A of the Code. However, notwithstanding any provision herein or in any Award Agreement to the contrary, a Participant shall only be paid Dividend Equivalents on the vested portion of the Participant's Restricted Stock Unit Award.

(f) **Bonus Stock and Awards in Lieu of Obligations.** The Committee is authorized to grant Shares to any Eligible Persons as a bonus, or to grant Shares or other Awards in lieu of obligations to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, provided that, in the case of Eligible Persons subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Shares or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Shares or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee.

(g) **Dividend Equivalents and Dividends.** The Committee is authorized to grant Dividend Equivalents to any Eligible Person entitling the Eligible Person to receive cash, Shares, other Awards, or other property equal in value to the dividends paid with respect to a specified number of Shares, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. Except as otherwise provided in the last sentence of Section 6(h) hereof, the Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or at some later date, or whether such Dividend Equivalents shall be deemed to have been reinvested in additional Shares, Awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify. Notwithstanding the foregoing, Dividend Equivalents credited in connection with an Award that vests based on the achievement of performance goals shall be subject to restrictions and risk of forfeiture to the same extent as the Award with respect to which such Dividend Equivalents have been credited. Notwithstanding anything herein to the contrary, neither dividends nor Dividend Equivalents shall be payable on appreciation awards, nor on unvested Awards unless and until the date the Participant vests in such Award. If provided in the Award Agreement, dividends or Dividend Equivalents relating to unvested Awards may accrue and be paid to Participants at the time of vesting of the underlying Award and shall be forfeited to the extent the underlying Award is forfeited. Nothing in this Section 6(g) shall require the payment or accrual of dividends or Dividend Equivalents on any Awards.

(h) **Performance Awards.** The Committee is authorized to grant Performance Awards to any Eligible Person payable in cash, Shares, or other Awards, on terms and conditions established by the Committee. The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award; provided, however, that a Performance Period shall not be shorter than twelve (12) months nor longer than five (5) years. Except as provided in Section 8 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee based upon any criteria that the Committee, in its sole discretion, shall determine should be used for that purpose. The amount of the Award to be distributed shall be conclusively determined by the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis in a manner that does not violate the requirements of Section 409A of the

Code. Notwithstanding any other provision of this Plan to the contrary, cash dividends, Shares, and any other property (other than cash) distributed as a dividend or otherwise with respect to any Performance Awards or any other Awards that are subject to satisfaction of performance goals, shall either (i) not be paid or credited, or (ii) be accumulated, shall be subject to satisfaction of the same performance goals to which the vesting of the underlying Award is subject, and shall be paid at the time such restrictions and risk of forfeiture lapses.

(i) **Other Stock-Based Awards.** The Committee is authorized, subject to limitations under applicable law, to grant to any Eligible Person such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan. Other Stock-Based Awards may be granted to Participants either alone or in addition to other Awards granted under the Plan, and such Other Stock-Based Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan. The Committee shall determine the terms and conditions of such Awards. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(i) shall be purchased for such consideration, (including without limitation loans from the Company or a Related Entity provided that such loans are not in violation of Section 13(k) of the Exchange Act, or any rule or regulation adopted thereunder or any other applicable law) paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, other Awards or other property, as the Committee shall determine.

7. Certain Provisions Applicable to Awards.

(a) **Stand-Alone, Additional, Tandem, and Substitute Awards.** Subject to Sections 6(b)(i) and 6(c)(i) herein, Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Related Entity, or any business entity to be acquired by the Company or a Related Entity, or any other right of a Participant to receive payment from the Company or any Related Entity. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Related Entity, in which the value of Shares subject to the Award is equivalent in value to the cash compensation (for example, Restricted Stock or Restricted Stock Units), or in which the exercise price, grant price or purchase price of the Award in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Shares minus the value of the cash compensation surrendered (for example, Options or Stock Appreciation Right granted with an exercise price or grant price “discounted” by the amount of the cash compensation surrendered), provided that any such determination to grant an Award in lieu of cash compensation must be made in a manner intended to comply with Section 409A of the Code.

(b) **Term of Awards.** The term of each Award shall be for such period as may be determined by the Committee. The term of any Option or Stock Appreciation Right shall not exceed a period of ten years (or in the case of an Incentive Stock Option such shorter term as may be required under Section 422 of the Code); provided, however, that in the event that on the last day of the term of an Option or a Stock Appreciation Right, other than an Incentive Stock Option, (i) the exercise of the Option or Stock Appreciation Right is prohibited by applicable law, or (ii) Shares may not be purchased, or sold by certain employees or directors of the Company due to the “black-out period” of a Company policy or a “lock-up” agreement undertaken in connection with an issuance of securities by the Company, the term of the Option or Stock Appreciation Right shall be extended for a period of thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement, provided that such extension of the term of the Option or Stock Appreciation Right would not cause the Option or Stock Appreciation Right to violate the requirements of Section 409A of the Code.

(c) **Form and Timing of Payment Under Awards; Deferrals.** Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Related Entity upon the exercise of an

Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Shares, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis, provided that any determination to pay in installments or on a deferred basis shall be made by the Committee at the date of grant. Any installment or deferral provided for in the preceding sentence shall, however, be subject to the Company's compliance with applicable law and all applicable rules of the Listing Market, and in a manner intended to be exempt from or otherwise satisfy the requirements of Section 409A of the Code. Subject to Section 7(e) hereof, the settlement of any Award may be accelerated, and cash may be paid in lieu of Shares in connection with such settlement, in the sole discretion of the Committee or upon occurrence of one or more specified events (in addition to a Change in Control). Any such settlement shall be at a value determined by the Committee in its sole discretion, which, without limitation, may in the case of an Option or Stock Appreciation Right be limited to the amount if any by which the Fair Market Value of a Share on the settlement date exceeds the exercise or grant price. Installment or deferred payments may be required by the Committee (subject to Section 7(e) of the Plan, including the consent provisions thereof in the case of any deferral of an outstanding Award not provided for in the original Award Agreement) or permitted at the election of the Participant on terms and conditions established by the Committee. The acceleration of the settlement of any Award, and the payment of any Award in installments or on a deferred basis, all shall be done in a manner that is intended to be exempt from or otherwise satisfy the requirements of Section 409A of the Code. The Committee may, without limitation, make provision for the payment or crediting of a reasonable interest rate on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Shares.

(d) **Exemptions from Section 16(b) Liability.** It is the intent of the Company that the grant of any Awards to or other transaction by a Participant who is subject to Section 16 of the Exchange Act shall be exempt from Section 16 pursuant to an applicable exemption (except for transactions acknowledged in writing to be non-exempt by such Participant). Accordingly, if any provision of this Plan or any Award Agreement does not comply with the requirements of Rule 16b-3 then applicable to any such transaction, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such Participant shall avoid liability under Section 16(b).

(e) **Code Section 409A.**

(i) The Award Agreement for any Award that the Committee reasonably determines to constitute a "nonqualified deferred compensation plan" under Section 409A of the Code (a "**Section 409A Plan**"), and the provisions of the Section 409A Plan applicable to that Award, shall be construed in a manner consistent with the applicable requirements of Section 409A of the Code, and the Committee, in its sole discretion and without the consent of any Participant, may amend any Award Agreement (and the provisions of the Plan applicable thereto) if and to the extent that the Committee determines that such amendment is necessary or appropriate to comply with the requirements of Section 409A of the Code.

(ii) If any Award constitutes a Section 409A Plan, then the Award shall be subject to the following additional requirements, if and to the extent required to comply with Section 409A of the Code:

(A) Payments under the Section 409A Plan may be made only upon (u) the Participant's "separation from service", (v) the date the Participant becomes "disabled", (w) the Participant's death, (x) a "specified time (or pursuant to a fixed schedule)" specified in the Award Agreement at the date of the deferral of such compensation, (y) a "change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets" of the Company, or (z) the occurrence of an "unforeseeable emergency";

(B) The time or schedule for any payment of the deferred compensation may not be accelerated, except to the extent provided in applicable Treasury Regulations or other applicable guidance issued by the Internal Revenue Service;

(C) Any elections with respect to the deferral of such compensation or the time and form of distribution of such deferred compensation shall comply with the requirements of Section 409A(a)(4) of the Code; and

(D) In the case of any Participant who is “specified employee”, a distribution on account of a “separation from service” may not be made before the date which is six months after the date of the Participant’s “separation from service” (or, if earlier, the date of the Participant’s death).

For purposes of the foregoing, the terms in quotations shall have the same meanings as those terms have for purposes of Section 409A of the Code, and the limitations set forth herein shall be applied in such manner (and only to the extent) as shall be necessary to comply with any requirements of Section 409A of the Code that are applicable to the Award.

(iii) Notwithstanding the foregoing, or any provision of this Plan or any Award Agreement, the Company does not make any representation to any Participant or Beneficiary that any Awards made pursuant to this Plan are exempt from, or satisfy, the requirements of, Section 409A of the Code, and the Company shall have no liability or other obligation to indemnify or hold harmless the Participant or any Beneficiary for any tax, additional tax, interest or penalties that the Participant or any Beneficiary may incur in the event that any provision of this Plan, or any Award Agreement, or any amendment or modification thereof, or any other action taken with respect thereto, is deemed to violate any of the requirements of Section 409A of the Code.

(f) **Minimum Vesting Requirements.** Notwithstanding any provision of this Plan or any Award Agreement to the contrary, each Award granted to an Eligible Person shall have a minimum vesting period and/or Performance Period of one (1) year from the date of grant of the Award and no portion of an Award shall vest prior to one (1) year from the date of grant of the Award.

8. Change in Control.

(a) **Effect of “Change in Control.”** If and only to the extent provided in any employment or other agreement between the Participant and the Company or any Related Entity, or in any Award Agreement, or to the extent otherwise determined by the Committee in its sole discretion and without any requirement that each Participant be treated consistently, upon the occurrence of a “Change in Control,” as defined in Section 8(b):

(i) Any Option or Stock Appreciation Right that was not previously vested and exercisable as of the time of the Change in Control, shall become immediately vested and exercisable, subject to applicable restrictions set forth in Section 9(a) hereof.

(ii) Any restrictions, deferral of settlement, and forfeiture conditions applicable to a Restricted Stock Award, Restricted Stock Unit Award or an Other Stock-Based Award subject only to future service requirements granted under the Plan shall lapse and such Awards shall be deemed fully vested as of the time of the Change in Control, except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 9(a) hereof.

(iii) With respect to any outstanding Award subject to achievement of performance goals and conditions under the Plan, the Committee may, in its discretion, consider such Awards to have been earned and payable based on achievement of performance goals or based upon target performance (either in full or on a pro-rata basis based on the portion of the Performance Period completed as of the Change in Control).

(iv) Notwithstanding the foregoing or any provision in any Award Agreement to the contrary, and unless the Committee otherwise determines in a specific instance, or as is provided in any employment or other agreement between the Participant and the Company and any Subsidiary, and unless the Committee otherwise determines in a specific instance, each outstanding Option, Stock Appreciation Right, Restricted Stock Award,

Restricted Stock Unit Award, Performance Award or Other Stock-Based Award shall not be accelerated as described in Sections 8(a)(i), (ii) and (iii), if either (A) the Company is the surviving entity in the Change in Control and the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Performance Award or Other Stock-Based Award continues to be outstanding after the Change in Control on substantially the same terms and conditions as were applicable immediately prior to the Change in Control or (B) the successor company or its parent company assumes or substitutes for the applicable Award, as determined in accordance with Section 9(c)(ii) hereof. For the purposes of this Agreement, an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award immediately prior to the Change in Control, on substantially the same vesting and other terms and conditions as were applicable to the Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company or its parent or subsidiary, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award, for each Share subject thereto, will be solely common stock of the successor company or its parent or subsidiary substantially equal in fair market value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.

(b) **Definition of “Change in Control”.** A “**Change in Control**” shall mean the occurrence of any of the following:

(i) The acquisition by any Person of Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than thirty-five percent (35%) of either (A) the value of then outstanding equity securities of the Company (the “**Outstanding Company Stock**”) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “**Outstanding Company Voting Securities**”) (the foregoing Beneficial Ownership hereinafter being referred to as a “**Controlling Interest**”); provided, however, that for purposes of this Section 8(b), the following acquisitions shall not constitute or result in a Change in Control: (w) any acquisition by the Company; (x) any acquisition by any Person that as of the Effective Date owns Beneficial Ownership of a Controlling Interest; (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Related Entity; or (z) any acquisition by any entity pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) below; or

(ii) During any period of two (2) consecutive years (not including any period prior to the Effective Date) individuals who constitute the Board on the Effective Date (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of (A) a reorganization, merger, statutory share exchange or consolidation or similar transaction involving (x) the Company or (y) any of its Subsidiaries, but in the case of this clause (y) only

if equity securities of the Company are issued or issuable in connection with the transaction (each of the events referred to in this clause (A) being hereinafter referred to as a “**Business Reorganization**”), or (B) a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or equity of another entity by the Company or any of its Subsidiaries (each an “Asset Sale”), in each case, unless, following such Business Reorganization or Asset Sale, (1) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding Company Stock and Outstanding Company Voting Securities immediately prior to such Business Reorganization or Asset Sale beneficially own, directly or indirectly, more than fifty percent (50%) of the value of the then outstanding equity securities and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of members of the board of directors (or comparable governing body of an entity that does not have such a board), as the case may be, of the entity resulting from such Business Reorganization or Asset Sale (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) (the “**Continuing Entity**”) in substantially the same proportions as their ownership, immediately prior to such Business Reorganization or Asset Sale, of the Outstanding Company Stock and Outstanding Company Voting Securities, as the case may be (excluding any outstanding equity or voting securities of the Continuing Entity that such Beneficial Owners hold immediately following the consummation of the Business Reorganization or Asset Sale as a result of their ownership, prior to such consummation, of equity or voting securities of any company or other entity involved in or forming part of such Business Reorganization or Asset Sale other than the Company), (2) no Person (excluding any employee benefit plan (or related trust) of the Company or any Continuing Entity or any entity controlled by the Continuing Corporation or any Person that as of the Effective Date owns Beneficial Ownership of a Controlling Interest) beneficially owns, directly or indirectly, fifty percent (50%) or more of the value of the then outstanding equity securities of the Continuing Entity or the combined voting power of the then outstanding voting securities of the Continuing Entity except to the extent that such ownership existed prior to the Business Reorganization or Asset Sale and (3) at least a majority of the members of the Board of Directors or other governing body of the Continuing Entity were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Reorganization or Asset Sale.

9. **General Provisions.**

(a) **Compliance With Legal and Other Requirements.** The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Shares or payment of other benefits under any Award until completion of such registration or qualification of such Shares or other required action under any federal or state law, rule or regulation, listing or other required action with respect to the Listing Market, or compliance with any other obligation of the Company, as the Committee, may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Shares or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations.

(b) **Limits on Transferability; Beneficiaries.** No Award or other right or interest granted under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party, or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except that Awards and other rights (other than Incentive Stock Options and Stock Appreciation Rights in tandem therewith) may be transferred to one or more Beneficiaries or other transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee pursuant to the express terms of an Award Agreement (subject to any terms and conditions which the Committee may impose thereon), are by gift or pursuant to a domestic relations order, and are to a “Permitted Assignee” that is a permissible transferee under the applicable rules of the Securities and Exchange Commission for registration of

shares of stock on a Form S-8 registration statement. For this purpose, a Permitted Assignee shall mean (i) the Participant's spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings, (ii) a trust for the benefit of one or more of the Participant or the persons referred to in clause (i), (iii) a partnership, limited liability company or corporation in which the Participant or the persons referred to in clause (i) are the only partners, members or shareholders, or (iv) a foundation in which any person or entity designated in clauses (i), (ii) or (iii) above control the management of assets. A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee. Notwithstanding anything herein to the contrary, no transfer to a third-party who is not a "Permitted Assignee" is permitted, and no transfer of an Award may be made for consideration.

(c) Adjustments.

(i) **Adjustments to Awards.** In the event that any extraordinary dividend or other distribution (whether in the form of cash, Shares, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Shares and/or such other securities of the Company or any other issuer, then the Committee shall, in such manner as it may deem equitable, substitute, exchange or adjust any or all of (A) the number and kind of Shares which may be delivered in connection with Awards granted thereafter, (B) the number and kind of Shares by which annual per-person Award limitations are measured under Section 4 hereof, (C) the number and kind of Shares subject to or deliverable in respect of outstanding Awards, (D) the exercise price, grant price or purchase price relating to any Award and/or make provision for payment of cash or other property in respect of any outstanding Award, and (E) any other aspect of any Award that the Committee determines to be appropriate.

(ii) **Adjustments in Case of Certain Transactions.** In the event of any merger, consolidation or other reorganization in which the Company does not survive, or in the event of any Change in Control (and subject to the provisions of Section 8 of this Plan relating to vesting of Awards in the event of any Change in Control), any outstanding Awards may be dealt with in accordance with any of the following approaches, without the requirement of obtaining any consent or agreement of a Participant as such, as determined by the agreement effectuating the transaction or, if and to the extent not so determined, as determined by the Committee: (a) the continuation of the outstanding Awards by the Company, if the Company is a surviving entity, (b) the assumption or substitution for, as those terms are defined below, the outstanding Awards by the surviving entity or its parent or subsidiary, (c) full exercisability or vesting and accelerated expiration of the outstanding Awards, or (d) settlement of the value of the outstanding Awards in cash or cash equivalents or other property followed by cancellation of such Awards (which value, in the case of Options or Stock Appreciation Rights, shall be measured by the amount, if any, by which the Fair Market Value of a Share exceeds the exercise or grant price of the Option or Stock Appreciation Right as of the effective date of the transaction). For the purposes of this Agreement, an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award immediately prior to the Change in Control, on substantially the same vesting and other terms and conditions as were applicable to the Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company or its parent or subsidiary, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award,

for each Share subject thereto, will be solely common stock of the successor company or its parent or subsidiary substantially equal in fair market value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding. The Committee shall give written notice of any proposed transaction referred to in this Section 9(c)(ii) at a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after the approval of such transaction), in order that Participants may have a reasonable period of time prior to the closing date of such transaction within which to exercise any Awards that are then exercisable (including any Awards that may become exercisable upon the closing date of such transaction). A Participant may condition his exercise of any Awards upon the consummation of the transaction.

(iii) **Other Adjustments.** The Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Awards subject to satisfaction of performance goals, or performance goals and conditions relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, acquisitions and dispositions of businesses and assets) affecting the Company, any Subsidiary or any business unit, or the financial statements of the Company or any Subsidiary, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any Subsidiary or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant. Adjustments permitted hereby may include, without limitation, increasing the exercise price of Options and Stock Appreciation Rights, increasing performance goals, or other adjustments that may be adverse to the Participant.

(d) **Award Agreements.** Each Award Agreement shall either be (a) in writing in a form approved by the Committee and executed by the Company by an officer duly authorized to act on its behalf, or (b) an electronic notice in a form approved by the Committee and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking one or more types of Awards as the Committee may provide; in each case and if required by the Committee, the Award Agreement shall be executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Committee may require. The Committee may authorize any officer of the Company to execute any or all Award Agreements on behalf of the Company. The Award Agreement shall set forth the material terms and conditions of the Award as established by the Committee consistent with the provisions of the Plan.

(e) **Taxes.** The Company and any Related Entity are authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company or any Related Entity and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis in the discretion of the Committee.

(f) **Changes to the Plan and Awards.** The Board may amend, alter, suspend, discontinue or terminate the Plan, or the Committee's authority to grant Awards under the Plan, without the consent of shareholders or Participants, except that any amendment or alteration to the Plan shall be subject to the approval of the Company's shareholders not later than the annual meeting next following such Board action if such shareholder approval is required by any federal or state law or regulation (including, without limitation, Rule 16b-3) or the rules of the Listing Market, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to shareholders for approval; provided that, except as otherwise permitted by the Plan or Award Agreement, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under the terms of any previously granted and outstanding Award. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any

Award theretofore granted and any Award Agreement relating thereto, except as otherwise provided in the Plan; provided that, except as otherwise permitted by the Plan or Award Agreement, without the consent of an affected Participant, no such Committee or the Board action may materially and adversely affect the rights of such Participant under terms of such Award.

(g) **Limitation on Rights Conferred Under Plan.** Neither the Plan nor any action taken hereunder or under any Award shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a Related Entity; (ii) interfering in any way with the right of the Company or a Related Entity to terminate any Eligible Person's or Participant's Continuous Service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and Employees, or (iv) conferring on a Participant any of the rights of a shareholder of the Company or any Related Entity including, without limitation, any right to receive dividends or distributions, any right to vote or act by written consent, any right to attend meetings of shareholders or any right to receive any information concerning the Company's or any Related Entity's business, financial condition, results of operation or prospects, unless and until such time as the Participant is duly issued Shares on the stock books of the Company or any Related Entity in accordance with the terms of an Award. None of the Company, its officers or its directors shall have any fiduciary obligation to the Participant with respect to any Awards unless and until the Participant is duly issued Shares pursuant to the Award on the stock books of the Company in accordance with the terms of an Award. Neither the Company, nor any Related Entity, nor any of their respective officers, directors, representatives or agents is granting any rights under the Plan to the Participant whatsoever, oral or written, express or implied, other than those rights expressly set forth in this Plan or the Award Agreement.

(h) **Clawback of Benefits.**

(i) The Company may (A) cause the cancellation of any Award, (B) require reimbursement of any Award by a Participant or Beneficiary, and (C) effect any other right of recoupment of equity or other compensation provided under this Plan or otherwise in accordance with any Company policies that currently exist or that may from time to time be adopted or modified in the future by the Company and/or applicable law (each, a "**Clawback Policy**"), provided that the following conditions are satisfied: (1) there is an accounting restatement of the Company's financial statements or results and (2) the restatement results from a noncompliance by the Company with any requirements under or related to the federal securities laws. In such an event, the clawback will be in an amount of up to the total economic gain from any stock-based grants within the five-year period preceding the restatement. By accepting an Award, a Participant is also agreeing to be bound by any existing or future Clawback Policy adopted by the Company, or any amendments that may from time to time be made to the Clawback Policy in the future by the Company in its discretion (including without limitation any Clawback Policy adopted or amended to comply with applicable laws or stock exchange requirements) and is further agreeing that all of the Participant's Award Agreements may be unilaterally amended by the Company, without the Participant's consent, to the extent that the Company in its discretion determines to be necessary or appropriate to comply with any Clawback Policy.

(ii) If the Participant, without the consent of the Company, while employed by or providing services to the Company or any Subsidiary or after termination of such employment or service, violates a non-competition, non-solicitation or non-disclosure covenant or agreement or otherwise engages in activity that is in conflict with Company's Corporate Governance Guidelines, Code of Conduct and Ethics, Code of Ethics for the Chief Executive Officer's and Senior Financial Officer's or any other corporate governance materials specified by the SEC or exchange on which common stock of the Company is listed, then (i) any outstanding, vested or unvested, earned or unearned portion of the Award may, at the Committee's discretion, be canceled and (ii) the Committee, in its discretion, may require the Participant or other person to whom any payment has been made or Shares or other property have been transferred in connection with the Award to forfeit and pay over to the Company, on demand, all or any portion of the gain (whether or not taxable) realized upon the exercise of any Option or Stock Appreciation Right and the value realized (whether or not taxable) on the vesting or payment of

any other Award during the time period specified in the Award Agreement or otherwise specified by the Committee.

(i) **Unfunded Status of Awards; Creation of Trusts.** The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Shares pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give any such Participant any rights that are greater than those of a general creditor of the Company or Related Entity that issues the Award; provided that the Committee may authorize the creation of trusts and deposit therein cash, Shares, other Awards or other property, or make other arrangements to meet the obligations of the Company or Related Entity under the Plan. Such trusts or other arrangements shall be consistent with the “unfunded” status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee may specify and in accordance with applicable law.

(j) **Nonexclusivity of the Plan.** Neither the adoption of the Plan by the Board nor its submission to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable including incentive arrangements.

(k) **Payments in the Event of Forfeitures; Fractional Shares.** Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash or other consideration, the Participant shall be repaid the amount of such cash or other consideration. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(l) **Prior Plans and Grandfathered Status.** All awards granted under any Prior Plan that remain issued and outstanding as of the Effective Date shall continue to be governed by the terms of the Prior Plan under which such issued and outstanding award was granted. Any award granted under a Prior Plan on or before November 2, 2017 that was intended to qualify as “performance-based compensation” under the version of Code Section 162(m) that was in effect for tax years beginning prior to January 1, 2018 (“Former Section 162(m)”), and that remains issued and outstanding under a Prior Plan as of the Effective Date, is intended to receive “grandfathered” status under Section 13601(e)(2) of the Tax Cuts and Jobs Act (P.L. 115-97) and shall be administered appropriately under the terms of the applicable Prior Plan so that such performance-based compensation awards shall continue to receive the favorable tax treatment provided to performance-based compensation under Former Section 162(m).

(m) **Governing Law.** Except as otherwise provided in any Award Agreement, the validity, construction and effect of the Plan, any rules and regulations under the Plan, and any Award Agreement shall be determined in accordance with the laws of the State of Delaware without giving effect to principles of conflict of laws, and applicable federal law.

(n) **Non-U.S. Laws.** The Committee shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or its Related Entities may operate to assure the viability of the benefits from Awards granted to Participants performing services in such countries and to meet the objectives of the Plan.

(o) **Construction and Interpretation.** Whenever used herein, nouns in the singular shall include the plural, and the masculine pronoun shall include the feminine gender. Headings of Articles and Sections hereof are inserted for convenience and reference and constitute no part of the Plan.

(p) **Severability.** If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

(q) **Plan Effective Date and Shareholder Approval; Termination of Plan.** The Plan shall become effective on the Effective Date, subject to subsequent approval, within 12 months of its adoption by the Board, by shareholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements of Code Section 422, Rule 16b-3 under the Exchange Act (if applicable), applicable requirements under the rules of any stock exchange or automated quotation system on which the Shares may be listed or quoted, and other laws, regulations, and obligations of the Company applicable to the Plan. Awards may be granted subject to shareholder approval, but may not be exercised or otherwise settled in the event the shareholder approval is not obtained. The Plan shall terminate at the earliest of (a) such time as no Shares remain available for issuance under the Plan, (b) termination of this Plan by the Board, or (c) the tenth anniversary of the Effective Date. Awards outstanding upon expiration of the Plan shall remain in effect until they have been exercised or terminated, or have expired.

RTI SURGICAL, INC.

INCENTIVE STOCK OPTION AGREEMENT
FOR
[insert name of optionee here]

1. **Grant of Option.** RTI SURGICAL, INC., a Delaware corporation (the “Company”) hereby grants, as of _____ (“Date of Grant”), to _____ (the “Optionee”) an option (the “Option”) to purchase up to _____ shares of the Company’s common stock (the “Shares”), at an exercise price per share equal to \$ _____ [must be 100% of FMV as of Date of Grant, or 110% of FMV in the case of a 10% owner] (the “Exercise Price”). The Option shall be subject to the terms and conditions set forth herein. The Option is being granted pursuant to the RTI Surgical, Inc. 2018 Incentive Compensation Plan, as may be amended from time to time (the “Plan”), which is incorporated herein for all purposes. The Option is an Incentive Stock Option, and not a Non-Qualified Stock Option. The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all of the terms and conditions hereof and thereof and all applicable laws and regulations.

2. **Definitions.** Unless otherwise provided herein, terms used herein that are defined in the Plan and not defined herein shall have the meanings attributed thereto in the Plan.

3. **Exercise Schedule.** Except as otherwise provided in Sections 6 or 9 of this Agreement, or in the Plan, the Option is exercisable in installments as provided below, which shall be cumulative. To the extent that the Option has become exercisable with respect to a percentage of Shares as provided below, the Option may thereafter be exercised by the Optionee, in whole or in part, at any time or from time to time prior to the expiration of the Option as provided herein. The following table indicates each date (the “Vesting Date”) upon which the Optionee shall be entitled to exercise the Option with respect to the percentage of Shares granted as indicated beside the date, provided that the Continuous Service of the Optionee continues through and on the applicable Vesting Date [the minimum vesting period is 12 months and no portion of the award can vest prior to 12 months]:

| <u>Percentage of Shares</u> | <u>Vesting Date</u> |
|-----------------------------|---------------------|
| | |
| | |

Except as otherwise specifically provided herein, there shall be no proportionate or partial vesting in the periods prior to each Vesting Date, and all vesting shall occur only on the appropriate Vesting Date. Upon the termination of the Optionee’s Continuous Service, any unvested portion of the Option shall terminate and be null and void.

4. **Method of Exercise.** The vested portion of this Option shall be exercisable in whole or in part in accordance with the exercise schedule set forth in Section 3 hereof by written notice which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder’s investment intent with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. If someone other than the Optionee exercises the Option (such as a beneficiary in the case of the Optionee’s death), then such person must submit documentation reasonably acceptable to the Company verifying that such person has the legal right to exercise the Option. This Option shall be deemed to be exercised after both (a) receipt by the Company of such written notice accompanied by the Exercise Price and (b) arrangements that are satisfactory to the Committee in its sole discretion have been made for Optionee’s payment to the Company of the amount, if any, that is necessary to be withheld in accordance with applicable Federal or state withholding requirements. No Shares shall be issued pursuant to the Option unless and until such issuance and such exercise shall comply with all relevant provisions of applicable law, including the requirements of any stock exchange upon which the Shares then may be traded.

5. **Method of Payment.** Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee: (a) cash; (b) check; or (c) to the extent permitted by the Committee, with Shares owned by the Optionee, or the withholding of Shares that otherwise would be delivered to the Optionee as a result of the exercise of the Option; or (d) such other consideration or in such other manner as may be determined by the Committee in its absolute discretion.

6. **Issuance of Shares.** Provided that the exercise and payment of the Option are in form and substance satisfactory to the Company, the Company shall issue the Shares registered in the name of the Optionee, the Optionee's authorized assignee, or the Optionee's legal representative which shall be evidenced by stock certificates representing the Shares with the appropriate legends affixed thereto, appropriate entry on the books of the Company or of a duly authorized transfer agent, or other appropriate means as determined by the Company.

7. **Termination of Option.**

(a) **General.** Any unexercised portion of the Option, whether vested or unvested, shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(i) three months after the date on which the Optionee's Continuous Service is terminated other than by reason of (A) by the Company or a Related Entity for Cause, (B) a Disability of the Optionee as determined by a medical doctor satisfactory to the Committee, or (C) the death of the Optionee;

(ii) immediately upon the termination of the Optionee's Continuous Service by the Company or a Related Entity for Cause;

(iii) twelve months after the date on which the Optionee's Continuous Service is terminated by reason of a Disability as determined by a medical doctor satisfactory to the Committee;

(iv) twelve months after the date of termination of the Optionee's Continuous Service by reason of the death of the Optionee;

(v) the tenth (10th) [*must be no more than fifth (5th) if optionee if 10% owner*] anniversary of the date as of which the Option is granted.

(b) **Cancellation.** To the extent not previously exercised, (i) the Option shall terminate immediately in the event of (A) the liquidation or dissolution of the Company, or (B) any reorganization, merger, consolidation or other form of corporate transaction in which the Company does not survive or the Shares are exchanged for or converted into securities issued by another entity, or an affiliate of such successor or acquiring entity, unless the successor or acquiring entity, or an affiliate thereof, assumes the Option or substitutes an equivalent option or right pursuant to Section 10(c) of the Plan, and (ii) the Committee in its sole discretion may by written notice ("cancellation notice") cancel, effective upon the consummation of any transaction that constitutes a Change in Control, the Option (or portion thereof) that remains unexercised on such date. The Committee shall give written notice of any proposed transaction referred to in this Section 6(b) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after approval of such transaction), in order that the Optionee may have a reasonable period of time prior to the closing date of such transaction within which to exercise the Option if and to the extent that it then is exercisable (including any portion of the Option that may become exercisable upon the closing date of such transaction). The Optionee may condition his exercise of the Option upon the consummation of a transaction referred to in this Section 6(b).

8. **Transferability.** Unless otherwise determined by the Committee, the Option granted hereby is not transferable otherwise than by will or under the applicable laws of descent and distribution, and during the lifetime of the Optionee the Option shall be exercisable only by the Optionee, or the Optionee's guardian or legal representative. In addition, the Option shall not be assigned, negotiated, pledged or hypothecated in any way (whether by operation of law or otherwise), and the Option shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, negotiate, pledge or hypothecate the Option, or in the event

of any levy upon the Option by reason of any execution, attachment or similar process contrary to the provisions hereof, the Option shall immediately become null and void. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

9. **No Rights of Stockholders.** Neither the Optionee nor any personal representative (or beneficiary) shall be, or shall have any of the rights and privileges of, a stockholder of the Company with respect to any Shares purchasable or issuable upon the exercise of the Option, in whole or in part, prior to the date on which the Shares are issued.

10. **Adjustments.** The Shares subject to the Option may be adjusted in any manner as contemplated by Section 9(c) of the Plan.

11. **[No] Acceleration of Exercisability of Option.**

[(a) **Acceleration Upon Change in Control.** This Option [shall] [shall not] become immediately fully exercisable in the event that, prior to the termination of the Option pursuant to Section 6 hereof, and during the Optionee's Continuous Service, there is a "Change in Control", as defined in Section 8(b) of the Plan.]

[(b) **Exception to Acceleration Upon Change in Control.** Notwithstanding the foregoing, if in the event of a Change in Control the successor company assumes or substitutes for the Option, the vesting of the Option shall not be accelerated, as described in Section 8(a)(iv) of the Plan. For the purposes of this paragraph, the Option shall be considered assumed or substituted for if following the Change in Control the Option or substituted option confers the right to purchase, for each Share subject to the Option immediately prior to the Change in Control, on substantially the same vesting and other terms and conditions as were applicable to the Option immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company, or its parent or subsidiary, provide that the consideration to be received upon the exercise or vesting of the Option will be solely common stock of the successor company or its parent or subsidiary substantially equal in Fair Market Value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.]

12. **Disqualifying Disposition.** If the Optionee disposes of the Shares received upon exercising the Option, prior to the expiration of either two (2) years from the Grant Date or one (1) year from the date the Shares are transferred to the Optionee pursuant to the exercise of the Option (a "Disqualifying Disposition"), the Optionee shall notify the Company in writing within thirty (30) days after such disposition of the date and terms of such disposition. The Optionee also agrees to provide the Company with any information concerning any such Disqualifying Disposition as the Company requires for tax purposes.

13. **No Right to Continued Employment.** Neither the Option nor this Agreement shall confer upon the Optionee any right to continued employment or service with the Company.

14. **Law Governing.** This Agreement shall be governed in accordance with and governed by the internal laws of the State of Delaware without regard to conflict of law principles.

15. **Interpretation / Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules,

regulations and interpretations relating to the Plan adopted by the Committee as may be in effect from time to time. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. The Optionee accepts the Option subject to all of the terms and provisions of the Plan and this Agreement. The undersigned Optionee hereby accepts as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan and this Agreement, unless shown to have been made in an arbitrary and capricious manner.

16. **Notices.** Any notice under this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally or when deposited in the United States mail, registered, postage prepaid, and addressed, in the case of the Company, to the Company's Secretary at _____, or if the Company should move its principal office, to such principal office, and, in the case of the Optionee, to the Optionee's last permanent address as shown on the Company's records, subject to the right of either party to designate some other address at any time hereafter in a notice satisfying the requirements of this Section.

14. **Incentive Stock Option Treatment.** The terms of this Option shall be interpreted in a manner consistent with the intent of the Company and the Optionee that the Option qualify as an Incentive Stock Option under Section 422 of the Code. If any provision of the Plan or this Agreement shall be impermissible in order for the Option to qualify as an Incentive Stock Option, then the Option shall be construed and enforced as if such provision had never been included in the Plan or the Option. If and to the extent that the number of Options granted pursuant to this Agreement exceeds the limitations contained in Section 422 of the Code on the value of Shares with respect to which this Option may qualify as an Incentive Stock Option, this Option shall be a Non-Qualified Stock Option.

17. **Severability.** The invalidity or unenforceability of any provision of the Plan or this Option Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Option Agreement, and each provision of the Plan and this Option Agreement shall be severable and enforceable to the extent permitted by law.

18. **Discretionary Nature of Plan.** The Plan is discretionary and may be amended, cancelled, or terminated by the Company at any time, in its discretion. The grant of the Option in this Option Agreement does not create any contractual right or other right to receive any Options or other Awards in the future. Future Awards, if any, will be at the sole discretion of the Company.

19. **Amendment.** The Committee has the right to amend, alter, suspend, discontinue or cancel the Option, prospectively or retroactively; provided, that, no such amendment shall adversely affect the Optionee's material rights under this Agreement without the Optionee's consent.

20. **Counterparts.** This Option Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Option Agreement transmitted by facsimile transmission, by electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

[Signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the ____ day of _____,
20__.

COMPANY:
RTI SURGICAL, INC.

By: _____
Name:
Title:

The Optionee acknowledges receipt of a copy of the Plan and represents that he or she has reviewed the provisions of the Plan and this Option Agreement in their entirety, is familiar with and understands their terms and provisions, and hereby accepts this Option subject to all of the terms and provisions of the Plan and the Option Agreement. The Optionee further represents that he or she has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement.

Dated: _____

OPTIONEE:

By: _____
[]

RTI SURGICAL, INC.

NONQUALIFIED STOCK OPTION AGREEMENT
FOR

[insert name of optionee here]

1. **Grant of Option.** RTI SURGICAL, INC., a Delaware corporation (the “Company”) hereby grants, as of _____ (“Date of Grant”), to _____ (the “Optionee”) an option (the “Option”) to purchase up to _____ shares of the Company’s common stock (the “Shares”), at an exercise price per share equal to \$ _____ (the “Exercise Price”). The Option shall be subject to the terms and conditions set forth herein. The Option is being granted pursuant to the RTI Surgical, Inc. 2018 Incentive Compensation Plan, as may be amended from time to time (the “Plan”), which is incorporated herein for all purposes. The Option is a Non-Qualified Stock Option and not an Incentive Stock Option. The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all of the terms and conditions hereof and thereof and all applicable laws and regulations.

2. **Definitions.** Unless otherwise provided herein, terms used herein that are defined in the Plan and not defined herein shall have the meanings attributed thereto in the Plan.

3. **Exercise Schedule.** Except as otherwise provided in Sections 6 or 9 of this Agreement, or in the Plan, the Option is exercisable in installments as provided below, which shall be cumulative. To the extent that the Option has become exercisable with respect to a percentage of Shares as provided below, the Option may thereafter be exercised by the Optionee, in whole or in part, at any time or from time to time prior to the expiration of the Option as provided herein. The following table indicates each date (the “Vesting Date”) upon which the Optionee shall be entitled to exercise the Option with respect to the percentage of Shares granted as indicated beside the date, provided that the Continuous Service of the Optionee continues through and on the applicable Vesting Date [*the minimum vesting period is 12 months and no portion of the award can vest prior to 12 months*]:

| <u>Percentage of Shares</u> | <u>Vesting Date</u> |
|-----------------------------|---------------------|
| | |
| | |

Except as otherwise specifically provided herein, there shall be no proportionate or partial vesting in the periods prior to each Vesting Date, and all vesting shall occur only on the appropriate Vesting Date. Upon the termination of the Optionee’s Continuous Service, any unvested portion of the Option shall terminate and be null and void.

4. **Method of Exercise.** The vested portion of this Option shall be exercisable in whole or in part in accordance with the exercise schedule set forth in Section 3 hereof by written notice which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder’s investment intent with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. If someone other than the Optionee exercises the Option (such as a beneficiary in the case of the Optionee’s death), then such person must submit documentation reasonably acceptable to the Company verifying that such person has the legal right to exercise the Options. This Option shall be deemed to be exercised after both (a) receipt by the Company of such written notice accompanied by the Exercise Price and (b) arrangements that are satisfactory to the Committee in its sole discretion have been made for Optionee’s payment to the Company of the amount, if any, that is necessary to be withheld in accordance with applicable Federal or state withholding requirements. No Shares shall be issued pursuant to the Option unless and until such issuance and such exercise shall comply with all relevant provisions of applicable law, including the requirements of any stock exchange upon which the Shares then may be traded.

5. **Method of Payment.** Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee: (a) cash; (b) check; or (c) to the extent permitted by the Committee, with Shares owned by the Optionee, or the withholding of Shares that otherwise would be delivered to the Optionee as a result of the exercise of the Option; or (d) such other consideration or in such other manner as may be determined by the Committee in its absolute discretion.

6. **Issuance of Shares.** Provided that the exercise and payment of the Option are in form and substance satisfactory to the Company, the Company shall issue the Shares registered in the name of the Optionee, the Optionee's authorized assignee, or the Optionee's legal representative which shall be evidenced by stock certificates representing the Shares with the appropriate legends affixed thereto, appropriate entry on the books of the Company or of a duly authorized transfer agent, or other appropriate means as determined by the Company.

7. **Termination of Option.**

(a) **General.** Any unexercised portion of the Option, whether vested or unvested, shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(i) three months after the date on which the Optionee's Continuous Service is terminated other than by reason of (A) by the Company or a Related Entity for Cause, (B) a Disability of the Optionee as determined by a medical doctor satisfactory to the Committee, or (C) the death of the Optionee;

(ii) immediately upon the termination of the Optionee's Continuous Service by the Company or a Related Entity for Cause;

(iii) twelve months after the date on which the Optionee's Continuous Service is terminated by reason of a Disability as determined by a medical doctor satisfactory to the Committee;

(iv) twelve months after the date of termination of the Optionee's Continuous Service by reason of the death of the Optionee;

(v) the tenth (10th) anniversary of the date as of which the Option is granted.

(b) **Cancellation.** To the extent not previously exercised, (i) the Option shall terminate immediately in the event of (A) the liquidation or dissolution of the Company, or (B) any reorganization, merger, consolidation or other form of corporate transaction in which the Company does not survive or the Shares are exchanged for or converted into securities issued by another entity, or an affiliate of such successor or acquiring entity, unless the successor or acquiring entity, or an affiliate thereof, assumes the Option or substitutes an equivalent option or right pursuant to Section 10(c) of the Plan, and (ii) the Committee in its sole discretion may by written notice ("cancellation notice") cancel, effective upon the consummation of any transaction that constitutes a Change in Control, the Option (or portion thereof) that remains unexercised on such date. The Committee shall give written notice of any proposed transaction referred to in this Section 6(b) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after approval of such transaction), in order that the Optionee may have a reasonable period of time prior to the closing date of such transaction within which to exercise the Option if and to the extent that it then is exercisable (including any portion of the Option that may become exercisable upon the closing date of such transaction). The Optionee may condition his exercise of the Option upon the consummation of a transaction referred to in this Section 6(b).

8. **Transferability.** Unless otherwise determined by the Committee, the Option granted hereby is not transferable otherwise than by will or under the applicable laws of descent and distribution, and during the lifetime of the Optionee the Option shall be exercisable only by the Optionee, or the Optionee's guardian or legal representative. In addition, the Option shall not be assigned, negotiated, pledged or hypothecated in any way (whether by operation of law or otherwise), and the Option shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, negotiate, pledge or hypothecate the Option, or in the event of any levy upon the Option by reason of any execution, attachment or similar process contrary to the provisions hereof, the Option shall immediately become null and void. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

9. **No Rights of Stockholders.** Neither the Optionee nor any personal representative (or beneficiary) shall be, or shall have any of the rights and privileges of, a stockholder of the Company with respect to any Shares purchasable or issuable upon the exercise of the Option, in whole or in part, prior to the date on which the Shares are issued.

10. **Adjustments.** The Shares subject to the Option may be adjusted in any manner as contemplated by Section 9(c) of the Plan.

11. **[No] Acceleration of Exercisability of Option.**

[(a) **Acceleration Upon Change in Control.** This Option [shall] [shall not] become immediately fully exercisable in the event that, prior to the termination of the Option pursuant to Section 6 hereof, and during the Optionee's Continuous Service, there is a "Change in Control", as defined in Section 9(b)] of the Plan.]

[(b) **Exception to Acceleration Upon Change in Control.** Notwithstanding the foregoing, if in the event of a Change in Control the successor company assumes or substitutes for the Option, the vesting of the Option shall not be accelerated, as described in Section 8(a)(iv) of the Plan. For the purposes of this paragraph, the Option shall be considered assumed or substituted for if following the Change in Control the Option or substituted option confers the right to purchase, for each Share subject to the Option immediately prior to the Change in Control, on substantially the same vesting and other terms and conditions as were applicable to the Option immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company, or its parent or subsidiary, provide that the consideration to be received upon the exercise or vesting of the Option will be solely common stock of the successor company or its parent or subsidiary substantially equal in Fair Market Value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.]

12. **No Right to Continued Employment.** Neither the Option nor this Agreement shall confer upon the Optionee any right to continued employment or service with the Company.

13. **Law Governing.** This Agreement shall be governed in accordance with and governed by the internal laws of the State of Delaware, without regard to conflict of law principles.

14. **Interpretation / Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan adopted by the Committee as may be in effect from time to time. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. The Optionee accepts the Option subject to all of the terms and provisions of the Plan and this Agreement. The undersigned Optionee hereby accepts as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan and this Agreement, unless shown to have been made in an arbitrary and capricious manner.

15. **Notices.** Any notice under this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally or when deposited in the United States mail, registered, postage prepaid, and addressed, in the case of the Company, to the Company's Secretary at _____, or if the Company should move its principal office, to such principal office, and, in the case of the Optionee, to the Optionee's last permanent address as shown on the Company's records, subject to the right of either party to designate some other address at any time hereafter in a notice satisfying the requirements of this Section.

16. **Severability.** The invalidity or unenforceability of any provision of the Plan or this Option Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Option Agreement, and each provision of the Plan and this Option Agreement shall be severable and enforceable to the extent permitted by law.

17. **Discretionary Nature of Plan.** The Plan is discretionary and may be amended, cancelled, or terminated by the Company at any time, in its discretion. The grant of the Option in this Option Agreement does not create any contractual right or other right to receive any Options or other Awards in the future. Future Awards, if any, will be at the sole discretion of the Company.

18. **Amendment.** The Committee has the right to amend, alter, suspend, discontinue or cancel the Option, prospectively or retroactively; provided, that, no such amendment shall adversely affect the Optionee's material rights under this Agreement without the Optionee's consent.

19. **Counterparts.** This Option Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Option Agreement transmitted by facsimile transmission, by electronic mail in portage document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the ____ day of _____,
20__.

COMPANY:
RTI SURGICAL, INC.

By: _____
Name:
Title:

The Optionee acknowledges receipt of a copy of the Plan and represents that he or she has reviewed the provisions of the Plan and this Option Agreement in their entirety, is familiar with and understands their terms and provisions, and hereby accepts this Option subject to all of the terms and provisions of the Plan and the Option Agreement. The Optionee further represents that he or she has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement.

Dated: _____

OPTIONEE:

By: _____
[]

RTI SURGICAL, INC.
RESTRICTED STOCK AGREEMENT
FOR

1. **Award of Restricted Stock.** RTI SURGICAL, INC., a Delaware corporation (the “Company”) hereby grants, as of _____ (the “Date of Grant”), to _____ (the “Recipient”), _____ restricted shares of the Company’s common stock (collectively the “Restricted Stock”). The Restricted Stock shall be subject to the terms, provisions and restrictions set forth in this Restricted Stock Agreement (this “Agreement”) and the RTI Surgical, Inc. 2018 Incentive Compensation Plan, as may be amended from time to time (the “Plan”), which is incorporated herein for all purposes. As a condition to entering into this Agreement, and as a condition to the issuance of any Shares (or any other securities of the Company), the Recipient agrees to be bound by all of the terms and conditions herein and in the Plan. Unless otherwise provided herein, terms used herein that are defined in the Plan and not defined herein shall have the meanings attributable thereto in the Plan.

2. **Vesting of Restricted Stock.**

(a) **General Vesting.** The shares of Restricted Stock shall become vested in the following amounts, at the following times and upon the following conditions, provided that the Continuous Service of the Recipient continues through and on the applicable Vesting Date [*the minimum vesting period is 12 months and no portion of the award can vest prior to 12 months*]:

| <u>Number of Shares of Restricted Stock</u> | <u>Vesting Date</u> |
|---|---------------------|
| [] | [] |
| [] | [] |
| [] | [] |
| [] | [] |
| [] | [] |

Except as otherwise provided in Sections [2(b),] 2(c) and 4 hereof, there shall be no proportionate or partial vesting of shares of Restricted Stock in or during the months, days or periods prior to each Vesting Date, and all vesting of shares of Restricted Stock shall occur only on the applicable Vesting Date.

(b) **Acceleration of Vesting Upon Change in Control.** [In the event that a Change in Control of the Company occurs during the Recipient’s Continuous Service, the shares of Restricted Stock subject to this Agreement shall become immediately vested as of the date of the Change in Control.] [Notwithstanding the foregoing, if in the event of a Change in Control the successor company assumes or substitutes another award for this Restricted Stock award, then the vesting of the Restricted Stock shall not be accelerated as described in this paragraph (b). For purposes of this paragraph, the Restricted Stock shall be considered assumed or substituted for if following the Change in Control the award substituting the Restricted Stock confers the right to receive, for each Share subject to the Restricted Stock award immediately prior to the Change in Control, on substantially the same vesting and other terms and conditions as were applicable to the Restricted Stock immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company or its parent or subsidiary, provide that the consideration to be received upon the vesting of the Restricted Stock shall be solely common stock of the successor company or its parent or subsidiary substantially equal to the fair market value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.]

(c) **Acceleration of Vesting at Company Discretion.** Notwithstanding any other term or provision of this Agreement, the Board or the Committee shall be authorized, in its sole discretion, based upon its review and evaluation of the performance of the Recipient and of the Company, to accelerate the vesting of any shares of Restricted Stock under this Agreement, at such times and upon such terms and conditions as the Board or the Committee shall deem advisable, provided that the minimum vesting requirements of Section 7 (f) of the Plan have been satisfied.

(d) **Definitions.** For purposes of this Agreement, the following terms shall have the meanings indicated:

(i) “**Non-Vested Shares**” means any portion of the Restricted Stock subject to this Agreement that has not become vested pursuant to this Section 2.

(ii) “**Vested Shares**” means any portion of the Restricted Stock subject to this Agreement that is and has become vested pursuant to this Section 2.

3. **Delivery of Restricted Stock.**

(a) **Issuance of Stock Certificates and Legends.** One or more stock certificates evidencing the Restricted Stock shall be issued in the name of the Recipient but shall be held and retained by the Records Administrator of the Company until the date (the “Applicable Date”) on which the shares (or a portion thereof) subject to this Restricted Stock award become Vested Shares pursuant to Section 2 hereof, subject to the provisions of Section 4 hereof. All such stock certificates shall bear the following legends, along with such other legends that the Board or the Committee shall deem necessary and appropriate or which are otherwise required or indicated pursuant to any applicable stockholders agreement:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO SUBSTANTIAL VESTING AND OTHER RESTRICTIONS AS SET FORTH IN THE RESTRICTED STOCK AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH RESTRICTIONS ARE BINDING ON TRANSFEREES OF THESE SHARES, AND INCLUDE VESTING CONDITIONS WHICH MAY RESULT IN THE COMPLETE FORFEITURE OF THE SHARES.

(b) **Stock Powers.** The Recipient shall deposit with the Company stock powers or other instruments of transfer or assignment, duly endorsed in blank with signature(s) guaranteed, corresponding to each certificate representing shares of Restricted Stock until such shares become Vested Shares, on a form attached hereto as Exhibit B. If the Recipient shall fail to provide the Company with any such stock power or other instrument of transfer or assignment, the Recipient hereby irrevocably appoints the Secretary of the Company as his attorney-in-fact, with full power of appointment and substitution, to execute and deliver any such power or other instrument which may be necessary to effectuate the transfer of the Restricted Stock (or assignment of distributions thereon) on the books and records of the Company. In addition, the Company may require the spouse of the Recipient, if any, to execute and deliver to the Company the Consent of Spouse in the form attached hereto as Exhibit C.

(c) **Delivery of Stock Certificates.** On or after each Applicable Date, upon written request to the Company by the Recipient, the Company shall promptly cause a new certificate or certificates to be issued for and with respect to all shares that become Vested Shares on that Applicable Date, which certificate(s) shall be delivered to the Recipient as soon as administratively practicable after the date of receipt by the Company of the Recipient’s written request. The new certificate or certificates shall continue to bear those legends and endorsements that the Company shall deem necessary or appropriate (including those relating to restrictions on transferability and/or obligations and restrictions under the Securities Laws).

4. **Forfeiture of Non-Vested Shares.** If the Recipient's Continuous Service with the Company and the Related Entities is terminated for any reason, any Shares of Restricted Stock that are not Vested Shares, and that do not become Vested Shares pursuant to Section 2 hereof as a result of such termination, shall be forfeited immediately upon such termination of Continuous Service and revert back to the Company without any payment to the Recipient. If the Recipient breaches any restrictive covenant applicable to the Recipient through a Company policy, plan, or agreement between the Recipient and Company, all Non-Vested Shares (and upon written demand by the Company, in its sole and absolute discretion, any Vested Shares) shall be forfeited immediately upon such breach and revert or be transferred by the Recipient back to the Company without any payment to the Recipient. The Committee shall have the power and authority to enforce on behalf of the Company any rights of the Company under this Agreement in the event of the Recipient's forfeiture of Non-Vested Shares pursuant to this Section 4.

5. **Rights with Respect to Restricted Stock.**

(a) **General.** Except as otherwise provided in this Agreement, the Recipient shall have, with respect to all of the shares of Restricted Stock, whether Vested Shares or Non-Vested Shares, all of the rights of a holder of shares of common stock of the Company, including without limitation (i) the right to vote such Restricted Stock, (ii) the right to receive dividends, if any, as may be declared on the Restricted Stock from time to time, and (iii) the rights available to all holders of shares of common stock of the Company upon any merger, consolidation, reorganization, liquidation or dissolution, stock split-up, stock dividend or recapitalization undertaken by the Company; provided, however, that all of such rights shall be subject to the terms, provisions, conditions and restrictions set forth in this Agreement (including without limitation conditions under which all such rights shall be forfeited). Any Shares issued to the Recipient as a dividend with respect to shares of Restricted Stock shall have the same status and bear the same legend as the shares of Restricted Stock and shall be held by the Company, if the shares of Restricted Stock that such dividend is attributed to is being so held, unless otherwise determined by the Committee. In addition, notwithstanding any provision to the contrary herein, any dividends, whether cash dividends or any Shares received as a dividend, declared with respect to shares of Restricted Stock subject to this Agreement shall be held in escrow by the Committee until such time as the shares of Restricted Stock that such dividends are attributed to shall become Vested Shares, and in the event that such shares of Restricted Stock are subsequently forfeited, the dividends attributable to such portion shall be forfeited as well. If the Recipient forfeits any rights he or she has under this Agreement, the Recipient shall, on the date of such forfeiture, no longer have any rights as a shareholder with respect to the forfeited Restricted Stock and shall no longer be entitled to vote or receive dividends on such shares.

(b) **Adjustments to Shares.** If at any time while this Agreement is in effect (or Shares granted hereunder shall be or remain unvested while Recipient's Continuous Service continues and has not yet terminated or ceased for any reason), there shall be any increase or decrease in the number of issued and outstanding Shares of the Company through the declaration of a stock dividend or through any recapitalization resulting in a stock split-up, combination or exchange of such Shares, then and in that event, the Board or the Committee shall make any adjustments it deems fair and appropriate, in view of such change, in the number of shares of Restricted Stock then subject to this Agreement. If any such adjustment shall result in a fractional Share, such fraction shall be disregarded.

(c) **No Restrictions on Certain Transactions.** Notwithstanding any term or provision of this Agreement to the contrary, the existence of this Agreement, or of any outstanding Restricted Stock awarded hereunder, shall not affect in any manner the right, power or authority of the Company to make, authorize or consummate: (i) any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; (ii) any merger, consolidation or similar transaction by or of the Company; (iii) any offer, issue or sale by the Company of any capital stock of the Company, including any equity or debt securities, or preferred or preference stock that would rank prior to or on parity with the Restricted Stock and/or that would include, have or possess other rights, benefits and/or preferences superior to those that the Restricted Stock includes, has or possesses, or any warrants, options or rights with respect to any of the foregoing; (iv) the dissolution or

liquidation of the Company; (v) any sale, transfer or assignment of all or any part of the stock, assets or business of the Company; or (vi) any other corporate transaction, act or proceeding (whether of a similar character or otherwise).

6. **Transferability.** Unless otherwise determined by the Committee, the shares of Restricted Stock are not transferable unless and until they become Vested Shares in accordance with this Agreement, otherwise than by will or under the applicable laws of descent and distribution. The terms of this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Recipient. Except as otherwise permitted pursuant to the first sentence of this Section, any attempt to effect a Transfer of any shares of Restricted Stock prior to the date on which the shares become Vested Shares shall be void *ab initio*. For purposes of this Agreement, “Transfer” shall mean any sale, transfer, encumbrance, gift, donation, assignment, pledge, hypothecation, or other disposition, whether similar or dissimilar to those previously enumerated, whether voluntary or involuntary, and including, but not limited to, any disposition by operation of law, by court order, by judicial process, or by foreclosure, levy or attachment.

7. **Tax Matters; Section 83(b) Election.**

(a) **Section 83(b) Election.** If the Recipient properly elects, within thirty (30) days of the Date of Grant, to include in gross income for federal income tax purposes an amount equal to the fair market value (as of the Date of Grant) of the Restricted Stock pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (the “Code”), a form of which is attached hereto as Exhibit A, the Recipient shall make arrangements satisfactory to the Company to pay to the Company any federal, state or local income taxes required to be withheld with respect to the Restricted Stock. If the Recipient shall fail to make such tax payments as are required, the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind (including without limitation, the withholding of any Shares that otherwise would be issued to the Recipient under this Agreement) otherwise due to the Recipient any federal, state or local taxes of any kind required by law to be withheld with respect to the Restricted Stock.

(b) **No Section 83(b) Election.** If the Recipient does not properly make the election described in paragraph 7(a) above, the Recipient shall, no later than the date or dates as of which the restrictions referred to in this Agreement hereof shall lapse, pay to the Company, or make arrangements satisfactory to the Committee for payment of, any federal, state or local taxes of any kind required by law to be withheld with respect to the Restricted Stock (including without limitation the vesting thereof), and the Company shall, to the extent permitted by law, have the right to deduct from any payment of any kind (including without limitation, the withholding of any Shares that otherwise would be distributed to the Recipient under this Agreement) otherwise due to Recipient any federal, state, or local taxes of any kind required by law to be withheld with respect to the Restricted Stock.

(c) **Recipient’s Responsibilities for Tax Consequences .** Tax consequences on the Recipient (including without limitation federal, state, local and foreign income tax consequences) with respect to the Restricted Stock (including without limitation the grant, vesting and/or forfeiture thereof) are the sole responsibility of the Recipient. The Recipient shall consult with his or her own personal accountant(s) and/or tax advisor(s) regarding these matters, the making of a Section 83(b) election, and the Recipient’s filing, withholding and payment (or tax liability) obligations.

8. **Amendment, Modification & Assignment; Non-Transferability.** This Agreement may only be modified or amended in a writing signed by the parties hereto. No promises, assurances, commitments, agreements, undertakings or representations, whether oral, written, electronic or otherwise, and whether express or implied, with respect to the subject matter hereof, have been made by either party which are not set forth expressly in this Agreement. Unless otherwise consented to in writing by the Company, in its sole discretion, this Agreement (and Recipient’s rights hereunder) may not be assigned, and the obligations of Recipient hereunder may not be delegated, in whole or in part. The rights and obligations created hereunder shall be binding on the Recipient and his heirs and legal representatives and on the successors and assigns of the Company.

9. **Complete Agreement.** This Agreement (together with those agreements and documents expressly referred to herein, for the purposes referred to herein) embody the complete and entire agreement and understanding between the parties with respect to the subject matter hereof, and supersede any and all prior promises, assurances, commitments, agreements, undertakings or representations, whether oral, written, electronic or otherwise, and whether express or implied, which may relate to the subject matter hereof in any way.

10. **Miscellaneous.**

(a) **No Right to (Continued) Employment or Service.** This Agreement and the grant of Restricted Stock hereunder shall not confer, or be construed to confer, upon the Recipient any right to employment or service, or continued employment or service, with the Company or any Related Entity.

(b) **No Limit on Other Compensation Arrangements.** Nothing contained in this Agreement shall preclude the Company or any Related Entity from adopting or continuing in effect other or additional compensation plans, agreements or arrangements, and any such plans, agreements and arrangements may be either generally applicable or applicable only in specific cases or to specific persons.

(c) **Severability.** If any term or provision of this Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or under any applicable law, rule or regulation, then such provision shall be construed or deemed amended to conform to applicable law (or if such provision cannot be so construed or deemed amended without materially altering the purpose or intent of this Agreement and the grant of Restricted Stock hereunder, such provision shall be stricken as to such jurisdiction and the remainder of this Agreement and the award hereunder shall remain in full force and effect).

(d) **No Trust or Fund Created.** Neither this Agreement nor the grant of Restricted Stock hereunder shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Related Entity and the Recipient or any other person. To the extent that the Recipient or any other person acquires a right to receive payments from the Company or any Related Entity pursuant to this Agreement, such right shall be no greater than the right of any unsecured general creditor of the Company.

(e) **Law Governing.** This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware (without reference to the conflict of laws rules or principles thereof).

(f) **Interpretation.** The Recipient accepts the Restricted Stock subject to all of the terms, provisions and restrictions of this Agreement and the Plan. The undersigned Recipient hereby accepts as binding, conclusive and final all decisions or interpretations of the Board or the Committee upon any questions arising under this Agreement or the Plan.

(g) **Headings.** Section, paragraph, and other headings and captions are provided solely as a convenience to facilitate reference. Such headings and captions shall not be deemed in any way material or relevant to the construction, meaning or interpretation of this Agreement or any term or provision hereof.

(h) **Notices.** Any notice under this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally or when deposited in the United States mail, registered, postage prepaid, and addressed, in the case of the Company, to the Company's Secretary at _____, or if the Company should move its principal office, to such principal office, and, in the case of the Recipient, to the Recipient's last permanent address as shown on the Company's records, subject to the right of either party to designate some other address at any time hereafter in a notice satisfying the requirements of this Section.

(i) **Non-Waiver of Breach.** The waiver by any party hereto of the other party's prompt and complete performance, or breach or violation, of any term or provision of this Agreement shall be effected solely in a writing signed by such party, and shall not operate nor be construed as a waiver of any subsequent breach or

violation, and the waiver by any party hereto to exercise any right or remedy which he or it may possess shall not operate nor be construed as the waiver of such right or remedy by such party, or as a bar to the exercise of such right or remedy by such party, upon the occurrence of any subsequent breach or violation.

(j) **Acceptance.** The Recipient hereby acknowledges receipt of a copy of the Plan. The Recipient has read and understands the terms and provisions thereof and of this Agreement, and accepts the Restricted Stock subject to all of the terms and conditions of the Plan and this Agreement. The Recipient acknowledges that there may be adverse tax consequences upon the grant or vesting of the Restricted Stock or disposition of the underlying shares and that the Recipient had been advised to consult a tax advisor prior to such grant, vesting, or disposition.

(k) **Counterparts.** This Agreement may be executed in two or more separate counterparts, each of which shall be an original, and all of which together shall constitute one and the same agreement.

[Signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the ____ day of _____,
20__.

COMPANY:
RTI SURGICAL, INC.

By: _____
Name:
Title:

Agreed and Accepted:

RECIPIENT:

By: _____

ELECTION UNDER SECTION 83(b) OF THE U.S. INTERNAL REVENUE CODE OF 1986

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income for the current taxable year the amount of any compensation taxable to taxpayer in connection with his or her receipt of the property described below:

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

Name: _____
Spouse: _____
Taxpayer I.D. No.: _____
Address: _____
Tax Year: _____

2. The property with respect to which the election is made is described as follows: _____ (_____) shares of the common stock ("Common Shares") of RTI Surgical, Inc. (the "Company").

3. The date on which the property was transferred is _____, 20__.

4. The property is subject to the following restrictions:

The Common Shares are required to be returned to the Company in the event that the undersigned ceases to perform services for the Company through certain dates specified in the Restricted Stock Agreement between me and the Company dated as of _____, 20__. This right lapses with regard to a portion of the Common Shares based on my Continuous Service as an Employee, Consultant or Director over time.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: \$ _____.

6. The amount (if any) paid for such property is: [ZERO].

7. The amount to include in gross income is \$ _____, which is the result of the amount reported in Item 5 minus the amount reported in Item 6.

The undersigned will file this election with the Internal Revenue Service office with which the taxpayer files [his/her] annual income tax return not later than 30 days after the date of the transfer of the property. The undersigned has also submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The undersigned is the person performing the services in connection with which the property was transferred. The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: _____, 20__

Signature of Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: _____, 20__

Spouse of Taxpayer

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED I, _____, hereby sell, assign and transfer unto _____ (_____) shares of common stock of RTI Surgical, Inc. standing in my name of the books of said corporation represented by Certificate No. _____ herewith and do hereby irrevocably constitute and appoint _____ to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

This Stock Assignment may be used only in accordance with the Restricted Stock Agreement between RTI Surgical, Inc. and the undersigned dated _____, _____.

Dated: _____, _____

Signature: _____

Print Name: _____

INSTRUCTIONS:

Please DO NOT fill in any blanks other than the signature lines.

The purpose of this assignment is to enable the Company to receive the return of the shares of common stock as set forth in the Restricted Stock Agreement, without requiring additional signatures on the part of the Recipient.

CONSENT OF SPOUSE

I, _____, spouse of _____, have read and approve the foregoing Restricted Stock Agreement (the "Agreement"). In consideration of the Company's grant to my spouse of the shares of common stock of RTI Surgical, Inc. as set forth in the Agreement, I hereby appoint my spouse as my attorney-in-fact in respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares of common stock issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state or country of our residence as of the date of the signing of the foregoing Agreement.

Dated: _____, 20__

Signature of Spouse

Print Name: _____

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

I, Camille I. Farhat, certify that:

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

/s/ Camille I. Farhat

Camille I. Farhat
President and Chief Executive Officer

Dated: May 4, 2018

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

I, Jonathon M. Singer, certify that:

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

/s/ Jonathon M. Singer

Jonathon M. Singer
Chief Financial and Administrative Officer

Dated: May 4, 2018

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

In connection with the Quarterly Report of RTI Surgical, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Camille I. Farhat, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Camille I. Farhat

Dated: May 4, 2018

Camille I. Farhat

President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of this Report or as a separate disclosure document. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report of RTI Surgical, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathon M. Singer, Chief Financial and Administrative Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Jonathon M. Singer

Jonathon M. Singer
Chief Financial and Administrative Officer

Dated: May 4, 2018

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of this Report or as a separate disclosure document. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.