UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 September 30, 2020

or

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

For the transition period from to

COMMISSION FILE NO. 001-36905

SeaSpine Holdings Corporation

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**47-3251758**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**

5770 Armada Drive, Carlsbad, CA 92008

(Address of principal executive offices) (zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (760) 727-8399

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	**SPNE**	**The Nasdaq Global Select Market**

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 x No o

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

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

Large accelerated filer	o	Accelerated filer	☒
Non-accelerated filer	o	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. o

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

The number of shares of the registrant's common stock, $0.01 par value, outstanding as of November 4, 2020 was 27,633,147.

SEASPINE HOLDINGS CORPORATION
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SEASPINE HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total revenue, net	$ 43,209	$ 39,888	$ 107,909	$ 115,344
Cost of goods sold	14,074	14,407	39,545	42,303
Gross profit	29,135	25,481	68,364	73,041
Operating expenses:				
Selling and marketing	22,163	21,682	59,652	60,552
General and administrative	8,908	8,452	26,307	24,498
Research and development	3,917	3,896	11,786	10,995
Intangible amortization	793	792	2,377	2,377
Impairment of intangible assets	—	—	1,325	4,993
Total operating expenses	35,781	34,822	101,447	103,415
Operating loss	(6,646)	(9,341)	(33,083)	(30,374)
Other income (expense), net	136	(97)	377	(49)
Loss before income taxes	(6,510)	(9,438)	(32,706)	(30,423)
Provision for income taxes	64	225	132	265
Net loss	$ (6,574)	$ (9,663)	$ (32,838)	$ (30,688)
Net loss per share, basic and diluted	$ (0.24)	$ (0.51)	$ (1.21)	$ (1.62)
Weighted average shares used to compute basic and diluted net loss per share	27,536	19,051	27,082	18,947

The accompanying notes are an integral part of these condensed consolidated financial statements.

SEASPINE HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net loss	$ (6,574)	$ (9,663)	$ (32,838)	$ (30,688)
Other comprehensive (loss) income				
Foreign currency translation adjustments	347	(327)	325	(388)
Unrealized (loss) gain on investments	(70)	(9)	31	5
Comprehensive loss	$ (6,297)	$ (9,999)	$ (32,482)	$ (31,071)

The accompanying notes are an integral part of these condensed consolidated financial statements.

SEASPINE HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except par value data)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,188	$ 20,199
Short-term investments	15,043	—
Trade accounts receivable, net of allowances of $371 and $111	23,352	24,902
Inventories, net	51,645	47,155
Prepaid expenses and other current assets	2,152	3,906
Total current assets	170,380	96,162
Property, plant and equipment, net	28,109	25,751
Right of use assets	8,013	—
Intangible assets, net	14,682	19,173
Other assets	558	632
Total assets	$ 221,742	$ 141,718
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 6,173	$ —
Accounts payable, trade	8,092	7,448
Accrued compensation	7,335	7,879
Accrued commissions	7,028	7,843
Contingent consideration liabilities	49	1,864
Short-term lease liability	2,130	—
Other accrued expenses and current liabilities	5,071	5,444
Total current liabilities	35,878	30,478
Long-term lease liability	7,230	—
Other liabilities	96	1,480
Total liabilities	43,204	31,958
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 15,000 authorized; no shares issued and outstanding at September 30, 2020 and December 31, 2019	—	—
Common stock, $0.01 par value; 60,000 authorized; 27,621 and 19,124 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	276	191
Additional paid-in capital	385,386	284,211
Accumulated other comprehensive income	1,790	1,434
Accumulated deficit	(208,914)	(176,076)
Total stockholders' equity	178,538	109,760
Total liabilities and stockholders' equity	$ 221,742	$ 141,718

The accompanying notes are an integral part of these condensed consolidated financial statements.

SEASPINE HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2020	2019
OPERATING ACTIVITIES:		
Net loss	$ (32,838)	$ (30,688)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,929	7,929
Instrument replacement expense	1,555	1,602
Impairment of intangible assets	1,325	4,993
Impairment of spinal instruments	210	30
Provision for excess and obsolete inventories	3,365	2,358
Stock-based compensation	7,934	5,907
Loss/(gain) from change in fair value of contingent consideration liabilities	160	(571)
Other	49	233
Changes in assets and liabilities:		
Accounts receivable	1,606	(3,531)
Inventories	(6,436)	(6,413)
Prepaid expenses and other current assets	1,755	(236)
Other non-current assets	(10)	(2)
Accounts payable	140	2,117
Accrued commissions	(825)	1,918
Other accrued expenses and current liabilities	66	(1,013)
Other non-current liabilities	(17)	237
Net cash used in operating activities	(14,032)	(15,130)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(9,571)	(10,337)
Additions to technology assets	(850)	—
Purchases of short-term investments	(25,007)	—
Maturities of short-term investments	10,000	25,000
Net cash (used in) provided by investing activities	(25,428)	14,663
FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program Loan	7,173	—
Repayments of Paycheck Protection Program Loan	(1,000)	—
Proceeds from issuance of common stock- employee stock purchase plan	698	671
Proceeds from exercise of stock options	1,073	230
Proceeds from issuance of common stock, net of offering costs	91,622	—
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	(2,069)	(2,070)
Payment of contingent consideration liabilities in connection with acquisition of business	(109)	(98)
Net cash provided by (used in) financing activities	97,388	(1,267)
Effect of exchange rate changes on cash and cash equivalents	61	(185)
Net change in cash and cash equivalents	57,989	(1,919)
Cash and cash equivalents at beginning of period	20,199	24,233
Cash and cash equivalents at end of period	$ 78,188	$ 22,314
Supplemental cash flow information:		
Interest paid	$ 126	$ 115
Income taxes paid	$ 115	$ 98
Non-cash investing activities:		
Property and equipment in liabilities	$ 1,187	$ 1,358
Non-cash financing activities:		
Settlement of contingent closing consideration liabilities with stock issuance in connection with acquisition of business	$ 2,000	$ —

The accompanying notes are an integral part of these condensed consolidated financial statements.

SEASPINE HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Amount				
Balance December 31, 2019	19,124	$ 191	$ 284,211	$ 1,434	$ (176,076)	$ 109,760
Net loss	—	—	—	—	(12,551)	(12,551)
Foreign currency translation adjustment	—	—	—	(164)	—	(164)
Unrealized gain on short-term investments	—	—	—	190	—	190
Restricted stock issued	213	2	—	—	—	2
Issuance of common stock - public offering	7,820	78	91,544	—	—	91,622
Issuance of common stock - exercise of stock options	80	1	901	—	—	902
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	—	—	(1,855)	—	—	(1,855)
Stock-based compensation	—	—	1,983	—	—	1,983
Balance March 31, 2020	27,237	272	376,784	1,460	(188,627)	189,889
Net loss	—	—	—	—	(13,713)	(13,713)
Foreign currency translation adjustment	—	—	—	142	—	142
Unrealized loss on short-term investments	—	—	—	(89)	—	(89)
Restricted stock issued	79	1	(1)	—	—	—
Issuance of common stock under employee stock purchase plan	78	1	697	—	—	698
Issuance of common stock- exercise of stock options	5	—	46	—	—	46
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	—	—	(43)	—	—	(43)
Stock-based compensation	—	—	2,769	—	—	2,769
Balance June 30, 2020	27,399	274	380,252	1,513	(202,340)	179,699
Net loss	—	—	—	—	(6,574)	(6,574)
Foreign currency translation adjustment	—	—	—	347	—	347
Unrealized loss on short-term investments	—	—	—	(70)	—	(70)
Restricted stock issued	33	—	—	—	—	—
Issuance of common stock- NLT Spine Ltd contingent consideration	176	2	1,998	—	—	2,000
Issuance of common stock- exercise of stock options	13	—	125	—	—	125
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	—	—	(171)	—	—	(171)
Stock-based compensation	—	—	3,182	—	—	3,182
Balance September 30, 2020	27,621	276	385,386	1,790	(208,914)	178,538

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Amount				
Balance December 31, 2018	18,669	$ 187	$ 277,096	$ 1,602	$ (136,800)	$ 142,085
Net loss	—	—	—	—	(8,989)	(8,989)
Foreign currency translation adjustment	—	—	—	(169)	—	(169)
Unrealized gain on short-term investments	—	—	—	11	—	11
Restricted stock issued	216	2	—	—	—	2
Issuance of common stock- exercise of stock options	11	—	143	—	—	143
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	—	—	(1,851)	—	—	(1,851)
Stock-based compensation	—	—	1,947	—	—	1,947
Balance March 31, 2019	18,896	189	277,335	1,444	(145,789)	133,179
Net loss	—	—	—	—	(12,036)	(12,036)
Foreign currency translation adjustment	—	—	—	108	—	108
Unrealized gain on short-term investments	—	—	—	3	—	3
Restricted stock issued	71	1	—	—	—	1
Issuance of common stock under employee stock purchase plan	64	1	670	—	—	671
Issuance of common stock- exercise of stock options	5	—	76	—	—	76
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	—	—	(57)	—	—	(57)
Stock-based compensation	—	—	1,970	—	—	1,970
Balance June 30, 2019	19,036	191	279,994	1,555	(157,825)	123,915
Net loss	—	—	—	—	(9,663)	(9,663)
Foreign currency translation adjustment	—	—	—	(327)	—	(327)
Unrealized loss on short-term investments	—	—	—	(9)	—	(9)
Restricted stock issued	23	—	—	—	—	—
Issuance of common stock- exercise of stock options	1	—	10	—	—	10
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	—	—	(164)	—	—	(164)
Stock-based compensation	—	—	1,990	—	—	1,990
Balance September 30, 2019	19,060	191	281,830	1,219	(167,488)	115,752

The accompanying notes are an integral part of these condensed consolidated financial statements.

SEASPINE HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND BASIS OF PRESENTATION

Business

SeaSpine Holdings Corporation was incorporated in Delaware on February 12, 2015 in connection with the spin-off of the orthobiologics and spinal implant business of Integra LifeSciences Holdings Corporation, a diversified medical technology company. The spin-off occurred on July 1, 2015. Unless the context indicates otherwise, (i) references to "SeaSpine" or the "Company" refer to SeaSpine Holdings Corporation and its wholly-owned subsidiaries, and (ii) references to "Integra" refer to Integra LifeSciences Holdings Corporation and its subsidiaries other than SeaSpine.

SeaSpine is a global medical technology company focused on the design, development and commercialization of surgical solutions for the treatment of patients suffering from spinal disorders. SeaSpine has a comprehensive portfolio of orthobiologics and spinal implant solutions to meet the varying combinations of products that neurosurgeons and orthopedic spine surgeons need to perform fusion procedures in the lumbar, thoracic and cervical spine. The Company believes this broad combined portfolio of orthobiologics and spinal implant products is essential to meet the “complete solution” requirements of such surgeons.

Basis of Presentation and Principles of Consolidation

The Company prepared the unaudited interim condensed consolidated financial statements included in this report in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC) related to quarterly reports on Form 10-Q.

The Company’s financial statements are presented on a consolidated basis. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. The unaudited interim condensed consolidated financial statements do not include all information and disclosures required by GAAP for annual audited financial statements and should be read with the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2019 included in the Company’s Annual Report on Form 10-K filed with the SEC. In the opinion of management, the unaudited interim condensed consolidated financial statements included in this report have been prepared on the same basis as the Company's audited consolidated financial statements and include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations, cash flows, and statement of equity for periods presented. The results for the three and nine months ended September 30, 2020 are not necessarily indicative of the results expected for the full year. In addition, the full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's business, results of operations and financial condition, including revenues, expenses, manufacturing, research and development costs and employee-related compensation, will depend on future developments that are highly uncertain and cannot be predicted. See Note 2. Summary of Significant Accounting Policies-Use of Estimates, below. The condensed consolidated balance sheet as of December 31, 2019 was derived from the audited consolidated balance sheet for the year ended December 31, 2019. Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Under current SEC rules, generally, a company qualifies as a "smaller reporting company" if it has a public float of less than $250 million as of the last business day of its most recently completed second fiscal quarter. If a company qualifies as a smaller reporting company on that date, it may elect to reflect that determination and use the smaller reporting company scaled disclosure accommodations in its subsequent SEC filings until the beginning of the first quarter of the fiscal year following the date it determines it does not qualify as a smaller reporting company. The Company's public float as of June 30, 2020, the last business day of its most recent second fiscal quarter, was less than $250 million, and as such, the Company qualifies as a smaller reporting company, elected to reflect that determination and intends to use certain of the scaled disclosure accommodations in its SEC filings made during and for each of the years ended December 31, 2020 and 2021.

Concentration of Risk

Integra and PcoMed, LLC (PcoMed) entered into a supply agreement in May 2013 (the Supply Agreement), which was subsequently assigned to the Company by Integra in May 2015. For the nine months ending September 30, 2020, the sales of products incorporating the NanoMetalene® technology licensed and supplied to the Company pursuant to the Supply Agreement exceeded 10% of the Company's revenue.

Pursuant to the Supply Agreement, PcoMed granted the Company a worldwide exclusive license to sell certain of its products treated with certain proprietary PcoMed technology (Treatment) for use in the spinal interbody and intervertebral market (Treated Products). PcoMed serves as the sole supplier of the Treatment. As consideration for the license and the Treatment, the Company paid to PcoMed initial milestone payments prior to the initial sale of any Treated Products and the Company will pay PcoMed a low single digit royalty on the Company's net sales of all Treated Products. In the event the Company fails to meet any of its payment obligations, the license will, at PcoMed's option and following a cure period, convert to a non-exclusive license. The Supply Agreement contains customary representations and termination provisions, including for material breach and bankruptcy. Each of the Company and PcoMed retain the rights to their respective intellectual property.

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. Cash balances are maintained primarily at major financial institutions in the United States and exceed the regulatory limit of $250,000 insured by the Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any credit losses associated with its cash balances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Preparing consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the consolidated financial statements include allowances for doubtful accounts receivable and sales returns and other credits, net realizable value of inventories, discount rates and estimated projected cash flows used to value and test impairments of identifiable intangible and long-lived assets, assumptions related to the timing and probability of product launch dates, discount rates matched to the estimated timing of payments, probability of success rates and discount adjustments on the related cash flows for contingent considerations in business combinations, depreciation and amortization periods for identifiable intangible and long-lived assets, computation of taxes, valuation allowances recorded against deferred tax assets, the valuation of stock-based compensation and loss contingencies. These estimates are based on historical experience and on various other assumptions believed to be reasonable under the current circumstances. Actual results could differ from these estimates.

The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's business, results of operations and financial condition, including revenues, expenses, manufacturing, research and development costs and employee-related compensation, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat COVID-19, as well as the economic impact on local, regional, national and international customers and markets. The Company has made estimates of the impact of the pandemic within its financial statements and there may be changes to those estimates in future periods. Actual results may differ from these estimates.

Recent Accounting Standards Not Yet Adopted

The Company qualifies as an "emerging growth company" (EGC) under the Jumpstart Our Business Startups (JOBS) Act and elected to take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, which permits EGCs to defer compliance with new or revised accounting standards until non-issuers must comply with such standards. Accordingly, so long as the Company continues to qualify as an EGC, the Company will not have to adopt or comply with new or revised accounting standards until non-issuers must adopt or comply with such standards. The Company will no longer qualify as an EGC on December 31, 2020, the last day of the fiscal year following the fifth year after its spin-off from Integra.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU or Update) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires credit losses on most financial assets measured at amortized cost, including trade receivables, and certain other instruments to be measured using an expected credit loss model, referred to as the current expected credit loss model. Under this model, entities will estimate credit losses over the entire contractual term of the instrument. The new standard will be effective for the Company beginning January 1, 2023. The FASB subsequently issued other related ASUs that amend ASU No. 2016-13 to provide clarification and additional guidance. The Company is evaluating the impact of this standard on its consolidated financial statements.

In August 2018, the FASB issued Update No. 2018-15, *Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40)*. The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain

internal-use software (and hosting arrangements that include an internal-use software license). The new standard will be effective for the Company beginning on January 1, 2021. Early adoption is permitted. The Company is evaluating the impact of this standard on its consolidated financial statements.

In April 2019, the FASB issued Update No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. This Update includes several amendments to the FASB Accounting Standards Codification (Codification) intended to clarify, improve, or correct errors therein. Some amendments do not require transition guidance and are effective upon issuance. The amendments requiring transition guidance have the same effective date as Update No. 2016-13 and will be effective for the Company beginning on January 1, 2023. The Company is evaluating the impact of this standard on its consolidated financial statements.

Recently Adopted Accounting Standards

In February 2016, the FASB issued Update No. 2016-02, *Leases (Topic 842)*. The new standard requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than twelve months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new standard must be adopted using the modified retrospective approach. In July 2018, the FASB issued Update No. 2018-10, *Codification Improvements to Topic 842 (Leases)* and Update No. 2018-11, *Leases (Topic 842): Targeted Improvements*. In March 2019, the FASB issued Update No. 2019-01, *Leases (Topic 842): Codification Improvements*. In November 2019, the FASB issued Update No. 2019-10, *Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which modifies the effective dates for Topic 842. The amendments in Updates Nos. 2018-10, 2018-11, 2019-01, and 2019-10 provide additional clarification and implementation guidance on certain aspects of Topic 842 and have the same effective date and transition requirements as ASU 2019-10. The Company early adopted the new standard beginning on January 1, 2020. The Company adopted the new standard electing the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. The Company applied the transition package of practical expedients allowed by the standard. As a result of the Company's adoption of the new standard, the Company recorded right-of-use assets and lease liabilities of $9.1 million and $10.5 million, respectively, for existing operating leases in the consolidated balance sheets at January 1, 2020. Additionally, the Company reversed $1.4 million of deferred rent liabilities previously recorded under the previous accounting guidance. The adoption of this new standard had no material impact on its consolidated results of operations or cash flows.

In June 2018, the FASB issued Update No. 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. This Update requires an entity to apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606. The new standard was effective for the Company beginning on January 1, 2020. The adoption of this new standard had no material impact on its consolidated financial statements.

In August 2018, the FASB issued Update No. 2018-13, *Fair Value Measurement (Topic 820)-Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820 based on the concepts in the Concepts Statement including the consideration of costs and benefits. The new standard was effective for the Company beginning on January 1, 2020. The adoption of this new standard had no material impact on its consolidated financial statements.

In March 2020, the FASB issued Update No. 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR, or another reference rate expected to be discontinued, due to the reference rate reform. The new standard was effective for the Company beginning March 12, 2020. The adoption of this new standard had no material impact on its consolidated financial statements.

Net Loss Per Share

Basic and diluted net loss per share was calculated using the weighted-average number of shares of common stock outstanding during the period. The weighted average number of shares used to compute diluted net loss per share excludes any assumed issuance of common stock upon exercise of stock options, any assumed issuance of common stock under restricted stock awards or units, and any assumed issuances under the Company's employee stock purchase plan, because the effect, in each case, would be antidilutive. Common stock equivalents of 4.3 million and 3.6 million shares for the nine months ended September 30, 2020 and 2019, respectively, were excluded from the calculation because of their antidilutive effect.

3. DEBT AND INTEREST

Credit Agreement

In December 2015, the Company entered into a three-year credit facility with Wells Fargo Bank, National Association, which was amended in October 2016, in July 2018, and in July 2020 (as amended, the Credit Facility). The Credit Facility provides an asset-backed revolving line of credit of up to $30.0 million with a maturity date of July 27, 2021, which is subject to a one-time, one-year extension at the Company's election. In addition, under the Credit Facility, at any time through July 27, 2021, the Company may increase the $30.0 million borrowing limit by up to an additional $10.0 million, subject to the Company having sufficient amounts of eligible accounts receivable and inventory and to customary conditions precedent, including obtaining the commitment of lenders to provide such additional amount. In connection with entering into the Credit Facility, the Company was required to become a guarantor and to provide a security interest in substantially all its assets for the benefit of the counterparty.

There were no amounts outstanding under the Credit Facility at September 30, 2020 or December 31, 2019. At September 30, 2020, the Company had $21.2 million of current borrowing capacity under the Credit Facility before the requirement to maintain the minimum fixed charge coverage ratio as discussed below. Debt issuance costs and legal fees related to the Credit Facility totaling $0.6 million were recorded as a deferred asset and are being amortized ratably over the term of the arrangement.

Borrowings under the Credit Facility accrue interest at the rate then applicable to base rate loans (as customarily defined), unless and until converted into LIBOR rate loans (as customarily defined) in accordance with the Credit Facility. Borrowings bear interest at a floating annual rate equal to (a) during any month for which the Company's average excess availability (as customarily defined) is greater than $20.0 million, (i) base rate plus 1.25 percentage points for base rate loans and (ii) LIBOR rate plus 2.25 percentage points for LIBOR rate loans, (b) during any month for which the Company's average excess availability is greater than $10.0 million but less than or equal to $20.0 million, (i) base rate plus 1.50 percentage points for base rate loans and (ii) LIBOR rate plus 2.50 percentage points for LIBOR rate loans and (c) during any month for which the Company's average excess availability is less than or equal to $10.0 million, (i) base rate plus 1.75 percentage points for base rate loans and (ii) LIBOR rate plus 2.75 percentage points for LIBOR rate loans. The Company also pays an unused line fee based on the average amount borrowed under the Credit Facility for the most recently completed month. If such average amount is 25% or greater of the maximum borrowing capacity, the unused fee will be equal to 0.375% per annum of the amount unused under the Credit Facility, and if such average amount is less than 25%, the unused line fee will be equal to 0.50% per annum of the amount unused under the Credit Facility. The unused line fee is due on the first day of each month.

The Credit Facility contains various customary affirmative and negative covenants, including prohibiting the Company from incurring indebtedness without the lender’s consent. The Credit Facility also includes a financial covenant that requires the Company to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 for the applicable measurement period, if the Company's Total Liquidity (as defined in the Credit Facility) is less than $5.0 million. The Company was in compliance with all applicable covenants at September 30, 2020.

The Credit Facility also includes customary events of default, including events of default relating to non-payment of amounts due under the Credit Facility, material inaccuracy of representations and warranties, violation of covenants, bankruptcy and insolvency, failure to comply with health care laws, violation of certain of the Company’s existing agreements, and the occurrence of a change of control. Under the Credit Facility, if an event of default occurs, the lender will have the right to terminate the commitments and accelerate the maturity of any loans outstanding.

Paycheck Protection Program

In April 2020, due to the economic uncertainty resulting from the impact of the COVID-19 pandemic on the Company's operations and to support its ongoing operations and retain all employees, the Company applied for a loan under the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The Company received a loan in the original principal amount of $7.2 million. The Company subsequently repaid $1.0 million of the loan. Under the terms of the PPP, subject to specified limitations, the loan may be forgiven if the proceeds are used in accordance with the CARES Act. The Company used the loan proceeds for purposes consistent with the terms of the PPP and has applied for forgiveness of the entire loan; however, no assurance is provided that the Company will obtain forgiveness of the loan in whole or in part. Any unforgiven portion of the loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months from the date of the loan.

4. INVESTMENTS

The amortized cost, estimated fair value and gross unrealized gains and losses on investments are shown in the table below:

	September 30, 2020			
		Gross Unrealized		
	Amortized Cost	Gains	(Losses)	Fair Value
	(In thousands)			
U.S. Treasury Bills	$ 15,012	$ 31	$ —	$ 15,043

There were no realized gains or losses during the three and nine months ended September 30, 2020. As of December 31, 2019, there were no short-term investments.

5. INVENTORIES

Inventories consisted of:

	September 30, 2020	December 31, 2019
	(In thousands)	
Finished goods	$ 36,767	$ 30,042
Work in process	8,525	10,847
Raw materials	6,353	6,266
	$ 51,645	$ 47,155

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and amortization and any impairment charges. The Company provides for depreciation using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term or the useful life. The cost of major additions and improvements is capitalized, while maintenance and repair costs that do not improve or extend the lives of the respective assets are charged to operations as incurred. The cost of computer software obtained for internal use is accounted for in accordance with the Codification 350-40, *Internal-Use Software.*

The cost of purchased spinal instruments which the Company consigns to hospitals and independent sales agents to support surgeries is initially capitalized as construction in progress. The amount is either then reclassified to spinal instruments and sets, and depreciation is initiated when instruments are put together in a newly built set with spinal implants, or directly expensed for the instruments used to replace damaged instruments in an existing set. The depreciation expense and direct expense for replacement instruments are recorded in selling and marketing expense.

Property, plant and equipment balances and corresponding useful lives were as follows:

	September 30, 2020	December 31, 2019	Useful Lives
	(In thousands)		
Leasehold improvements	$ 5,976	$ 5,878	Shorter of lease term or useful life
Machinery and production equipment	9,295	8,562	3 - 10 years
Spinal instruments and sets	31,636	25,511	4 - 5 years
Information systems and hardware	7,784	7,442	3 - 7 years
Furniture and fixtures	1,456	1,412	3 - 5 years
Construction in progress	9,517	9,716	
Total	65,664	58,521	
Less accumulated depreciation and amortization	(37,555)	(32,770)	
Property, plant and equipment, net	$ 28,109	$ 25,751	

Depreciation and amortization expenses totaled $1.7 million and $1.3 million for the three months ended September 30, 2020 and 2019, respectively, and $4.8 million and $3.6 million for the nine months ended September 30, 2020 and 2019, respectively. The cost of purchased instruments used to replace damaged instruments in existing sets and recorded directly to instrument replacement expense totaled $0.6 million for each of the three months ended September 30, 2020 and 2019, and $1.6 million for each of the nine months ended September 30, 2020 and 2019.

For the nine months ended September 30, 2020, the Company recorded impairment charges to selling and marketing expense totaling $0.2 million against spinal instruments that are no longer expected to be placed into service. Impairment charges against spinal instruments recorded for the nine months ended September 30, 2019 were immaterial.

7. IDENTIFIABLE INTANGIBLE ASSETS

Identifiable intangible assets are initially recorded at fair value at the time of acquisition, generally using an income or cost approach. The Company capitalizes costs incurred to renew or extend the term of recognized intangible assets and amortizes those costs over their expected useful lives.

Primarily as a result of an expected shift in future product revenue mix more toward a parallel expanding interbody device designed based on the Company's internally developed technology and, in turn, lower future revenue anticipated for the lordotic expanding implant based on technology the Company acquired from N.L.T. Spine Ltd. (NLT) and NLT Spine, Inc., a wholly owned subsidiary of NLT, the Company's estimated future net sales associated with those NLT product technologies decreased. Accordingly, the Company evaluated the ongoing value of the product technology intangible assets associated with the acquisition of these assets. Based on this evaluation, the Company determined that intangible assets with a carrying amount of $1.6 million were no longer recoverable and were impaired, and the Company wrote those intangible assets down to their estimated fair value of $0.3 million at March 31, 2020. Significant estimates used in determining the estimated fair value include measurements estimating cash flows and determining the appropriate discount rate, which are considered Level 3 inputs under Codification 820.

The components of the Company's identifiable intangible assets were:

	September 30, 2020			
	Weighted Average Life	Cost	Accumulated Amortization	Net
		(Dollars in thousands)		
Product technology	12 years	32,641	$ (29,509)	$ 3,132
Customer relationships	12 years	56,830	(45,280)	11,550
Trademarks/brand names	—	300	(300)	—
		$ 89,771	$ (75,089)	$ 14,682

	December 31, 2019			
	Weighted Average Life	Cost	Accumulated Amortization	Net
		(Dollars in thousands)		
Product technology	12 years	$ 34,158	$ (28,912)	$ 5,246
Customer relationships	12 years	56,830	(42,903)	13,927
Trademarks/brand names	—	300	(300)	—
		$ 91,288	$ (72,115)	$ 19,173

Annual amortization expense (including amounts reported in cost of goods sold) is expected to be approximately $4.2 million in 2020, $4.2 million in 2021, $4.1 million in 2022, $3.4 million in 2023, and $1.5 million in 2024. For the three months ended September 30, 2020 and 2019, amortization expense totaled $1.0 million and $1.2 million, respectively, and included $0.3 million and $0.4 million, respectively, of amortization of product technology intangible assets that is presented within cost of goods sold. Amortization expense totaled $3.2 million and $4.3 million for the nine months ended September 30, 2020 and 2019, respectively, and included $0.8 million and $1.9 million, respectively, of amortization of product technology intangible assets that is presented within cost of goods sold.

8. FAIR VALUE MEASUREMENTS

The fair values of the Company's assets and liabilities, including contingent consideration liabilities, are measured at fair value on a recurring basis, and are determined under the fair value categories as follows (in thousands):

	Total	Quoted Price in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2020:				
Short-term investments	$ 15,043	$ 15,043	$ —	$ —
Contingent consideration liabilities- current	$ 49	$ —	$ —	$ 49
Contingent consideration liabilities- non-current	96	—	—	96
Total contingent consideration	$ 145	$ —	$ —	$ 145

	Total	Quoted Price in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019:				
Short-term investments	$ —	$ —	$ —	$ —
Contingent consideration liabilities- current	$ 1,864	$ —	$ —	$ 1,864
Contingent consideration liabilities- non-current	230	—	—	230
Total contingent consideration	$ 2,094	$ —	$ —	$ 2,094

Short-term investments are classified with Level 1 of the fair value hierarchy because they use quoted market prices in active markets for identical assets.

Under the terms of the 2016 asset purchase agreement between the Company and NLT, the Company is obligated to pay up to a maximum $5.0 million in milestone payments to NLT, payable at the Company's election in cash or in shares of its common stock. Such milestone payments are contingent on the Company's achievement of four independent events related to the commercialization of the product technologies the Company acquired in the transaction. To date, the Company achieved two of the milestones, one each during the three months ended June 30, 2020 and September 30, 2020, and paid the $2.0 million of milestone payments in shares of its common stock in July 2020 and August 2020, respectively. Additionally, the Company must pay royalty payments, in cash, to NLT equal to declining (over time) percentages of the Company's future net sales of certain of the acquired product technologies not to exceed $43.0 million in the aggregate. The Company has the option to terminate any future obligation to make royalty payments by making a one-time cash payment to NLT of $18.0 million.

Contingent consideration liabilities are classified within Level 3 of the fair value hierarchy because they use significant unobservable inputs. For those liabilities, fair value is determined using a probability-weighted discounted cash flow model and significant inputs which are not observable in the market. The significant inputs include assumptions related to the timing and probability of the product launch dates, estimated future sales of the products, estimated commission rates, discount rates matched to the timing of payments, and probability of success rates.

The following table sets forth the changes in the estimated fair value of the Company's liabilities measured on a recurring basis using significant unobservable inputs (Level 3). The loss from change in fair value of contingent milestone and royalty payments resulted from the timing of payments, success rates, the passage of time, updated discount rates matched to the estimated timing of payments, actual net sales of certain products for the three and nine months ended September 30, 2020, and estimated net sales for future royalty payment periods.

A change in estimated timing of payments, probability of success rates, or estimated net sales for future royalty payment periods would be expected to have a material impact on the fair value of contingent milestone and royalty payments.

Three Months Ended September 30, 2020:		**(in thousands)**
Balance as of June 30, 2020	$	2,106
Contingent consideration liabilities settled		(2,037)
Loss from change in fair value of contingent consideration recorded in general and administrative expenses		76
Fair value at September 30, 2020	$	145

Nine Months Ended September 30, 2020:		**(in thousands)**
Balance as of January 1, 2020	$	2,094
Contingent consideration liabilities settled		(2,109)
Loss from change in fair value of contingent consideration recorded in general and administrative expenses		160
Fair value at September 30, 2020	$	145

9. EQUITY AND STOCK-BASED COMPENSATION

Common Stock

On July 28, 2020 and August 17, 2020, the Company issued 100,100 shares and 75,585 shares of its common stock to NLT, respectively, as settlement of contingent milestone payments pursuant to the terms of the asset purchase agreement entered into with NLT in August 2016. See Note 8, "Fair Value Measurements" above.

In January 2020, the Company entered into an Underwriting Agreement with Piper Sandler & Co. and Canaccord Genuity LLC relating to the issuance and sale of 6,800,000 shares of the Company’s common stock at a price to the public of $12.50 per share, before underwriting discounts and commissions. Under the terms of that agreement, the Company granted the underwriters an option, exercisable for 30 days, to purchase up to an additional 1,020,000 shares of common stock. The underwriters exercised this option and the offering closed on January 10, 2020 with the sale of 7,820,000 shares of common stock, resulting in net proceeds to the Company of approximately $91.6 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. The offering was made pursuant to the Company’s shelf registration statement on Form S-3 that was declared effective on May 22, 2019.

Equity Award Plans

As of June 30, 2015, Integra had stock options, restricted stock awards, performance stock awards, contract stock awards and restricted stock units outstanding under three plans, the 2000 Equity Incentive Plan, the 2001 Equity Incentive Plan, and the 2003 Equity Incentive Plan. In connection with the spin-off, Integra equity awards granted to individuals who became employees of SeaSpine were converted to equity awards denominated in SeaSpine common stock. In general, each post-conversion award is subject to the same terms and conditions as were applicable to the pre-conversion award.

In May 2015, the Company adopted the 2015 Incentive Award Plan, which was subsequently amended and restated with approval of the Company's stockholders. In February and March 2018, the Company's board of directors approved amendments to the plan that increased the share reserve by an aggregate of 2,726,000 shares over the then-existing share reserve thereunder, subject to stockholder approval. The Company's stockholders approved both amendments in May 2018. On April 13, 2020, the Company's board of directors approved an amendment to the plan that, among other things, increased the share reserve by an aggregate of 3,500,000 shares over the then-existing share reserve thereunder, subject to stockholder approval. The Company's stockholders approved the amendment on June 3, 2020 (the 2015 Incentive Award Plan, as amended and restated to date, the Restated Plan). Under the Restated Plan, the Company can grant its employees, non-employee directors and consultants incentive stock options and non-qualified stock options, restricted stock, performance stock, dividend equivalent rights, stock appreciation rights, stock payment awards and other incentive awards. The aggregate number of shares that may be issued or transferred pursuant to awards under the Restated Plan is the sum of (1) the number of shares issuable upon exercise or vesting of the number of Integra equity awards converted to the Company's equity awards under the Restated Plan as of the date of the spin-off and (2) 9,735,500 shares of its common stock in respect of awards granted under the Restated Plan. As of September 30, 2020, 3,955,478 shares were available for issuance under the Restated Plan.

In June 2018, the Company established the 2018 Employment Inducement Incentive Award Plan (the 2018 Inducement Plan). The terms of the 2018 Inducement Plan are substantially similar to the terms of the Restated Plan with these principal exceptions: (1) incentive stock options may not be granted under the 2018 Inducement Plan; (2) there are no annual limits on awards that may be issued to an individual under the 2018 Inducement Plan; (3) awards granted under the 2018 Inducement Plan are not required to be subject to any minimum vesting period; and (4) awards may be granted under the 2018 Inducement Plan only to those individuals and in those circumstances described below. An aggregate of 2,000,000 shares are reserved under the 2018 Inducement Plan. As of September 30, 2020, 1,914,793 shares were available for issuance under the 2018 Inducement Plan. As a result of the approval of the amendment to the Restated Plan by the Company's stockholders in June 2020, no awards will be granted under the 2018 Inducement Plan in the future.

In August 2020, the Company adopted the 2020 Employment Inducement Incentive Award Plan (the 2020 Inducement Plan). The terms of the 2020 Inducement Plan are substantially similar to the terms of the 2015 Incentive Award Plan with four principal exceptions: (1) incentive stock options may not be granted under the 2020 Inducement Plan; (2) there are no annual limits on awards that may be issued to an individual under the 2020 Inducement Plan; (3) awards granted under the 2020 Inducement Plan are not required to be subject to any minimum vesting period; and (4) awards may be granted under the 2020 Inducement Plan only to those individuals and in those circumstances described below. An aggregate of 2,000,000 shares are reserved under the 2020 Inducement Plan. As of September 30, 2020, 1,959,415 share were available for issuance under the 2020 Inducement Plan.

Both the 2018 Inducement Plan and the 2020 Inducement Plan were adopted by the Company's board of directors without stockholder approval pursuant to Rule 5635(c)(4) of the Nasdaq Listing Rules. In accordance with Rule 5635(c)(4) of the Nasdaq Listing Rules, awards under those plans may only be made to an employee who has not previously been an employee or member of the Company's board of directors or of any board of directors of any parent or subsidiary of the Company, or following a bona fide period of non-employment by the Company or a parent or subsidiary, if he or she is granted such award in connection with his or her commencement of employment with the Company or a subsidiary and such grant is an inducement material to his or her entering into employment with the Company or such subsidiary.

Forfeiture Rate Assumptions

Stock-based compensation expense related to all equity awards includes an estimate for forfeitures. The expected forfeiture rate of all equity-based compensation is based on historical experience of pre-vesting forfeitures on awards and options by each homogeneous group of shareowners. For awards and options granted to non-executive employees, the forfeiture rate is estimated to be 13% annually for the nine months ended September 30, 2020 and 14% annually for the nine months ended September 30, 2019. There is no forfeiture rate applied to awards or options granted to non-employee directors or executive employees because their pre-vesting forfeitures are anticipated to be highly unlikely. As individual awards and options become fully vested, stock-based compensation expense is adjusted to recognize actual forfeitures.

Restricted Stock Awards and Restricted Stock Units

Restricted stock award and restricted stock unit grants to employees generally have a requisite service period of three years, and restricted stock award and restricted stock unit grants to non-employee directors generally have a requisite service period of one year. Both are subject to graded vesting. The Company expenses the fair value of restricted stock awards and restricted stock units on an accelerated basis over the vesting period or requisite service period, whichever is shorter.

During the three and nine months ended September 30, 2020, there were 4,894 and 77,414 shares of restricted stock awards granted to non-employee directors. During the nine months ended September 30, 2019, there were 76,471 shares of restricted stock awards granted to non-employee directors. No restricted stock awards were granted to non-employee directors during the three months ended September 30, 2019. No restricted stock units were granted to non-employee directors during the three or nine months ended September 30, 2020 or 2019.

During the three and nine months ended September 30, 2020, 22,650 and 399,404 restricted stock units were granted to employees, respectively. During the three and nine months ended September 30, 2019, 34,100 and 252,710 restricted stock units were granted to employees, respectively. No restricted stock awards were granted to employees during the three or nine months ended September 30, 2020 or 2019.

As of September 30, 2020, there was approximately $3.9 million of unrecognized compensation expense related to the unvested portions of restricted stock awards and of restricted stock units. This expense is expected to be recognized over a weighted-average period of approximately 0.9 years.

Stock Options

Stock option grants to employees generally have a requisite service period of four years, and stock option grants to non-employee directors generally have a requisite service period of one year. Both are subject to graded vesting. The Company records stock-based compensation expense associated with stock options on an accelerated basis over the applicable vesting period within each grant and based on their fair value at the date of grant using the Black-Scholes-Merton option pricing model. There were 22,753 stock options granted during the three months ended September 30, 2020, and 943,003 and 434,708 stock options granted during the nine months ended September 30, 2020 and 2019, respectively. There were no stock options granted during the three months ended September 30, 2019. The following weighted-average assumptions were used in the calculation of fair value for options granted during the period indicated.

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2020	2020	2019
Expected dividend yield	—%	—%	—%
Risk-free interest rate	0.2%	1.3%	2.5%
Expected volatility	52.6%	46.4%	30.2%
Expected term (in years)	3.8	4.9	5.0

The Company considered that it has never paid, and does not currently intend to pay, cash dividends. The risk-free interest rates are derived from the U.S. Treasury yield curve in effect on the date of grant for instruments with a remaining term similar to the expected term of the options. The expected volatility is calculated based upon the historical volatility of the Company's share prices. The expected term is calculated using the historical weighted average term of the Company's options.

As of September 30, 2020, there was approximately $2.4 million of unrecognized compensation expense related to unvested stock options. This expense is expected to be recognized over a weighted-average period of approximately 1.4 years.

Employee Stock Purchase Plan

In May 2015, the Company adopted the SeaSpine Holdings Corporation 2015 Employee Stock Purchase Plan, which was amended in November 2018, as described below (as amended, the ESPP). Under the ESPP, eligible employees may purchase shares of the Company's common stock through payroll deductions of up to 15% of eligible compensation during an offering period. Generally, each offering period will be for 24 months as determined by the Company's board of directors. There are four six-month purchase periods in each offering period for contributions to be made and to be converted into shares at the end of the purchase period. In no event may an employee purchase more than 2,500 shares per purchase period based on the closing price on the first trading date of an offering period or more than $25,000 worth of stock during any calendar year. The purchase price for shares to be purchased under the ESPP is 85% of the lesser of the market price of the Company's common stock on the first trading date of an offering period or on any purchase date during an offering period (June 30 or December 31).

Subject to stockholder approval, on and effective as of November 2, 2018, the Company's board of directors approved an amendment to the ESPP pursuant to which the share reserve under the ESPP would increase from 400,000 shares to 800,000 shares. The Company's stockholders approved that amendment in May 2019. The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the IRC). The ESPP contains a restart feature, such that if the market price of the stock at the end of any six-month purchase period is lower than the market price at the original grant date of an offering period, that offering period will terminate after that purchase date, and a new two-year offering period will commence on the January 1 or July 1 immediately following the date the original offering period terminated. This restart feature was triggered on the purchase date that occurred on June 30, 2019, such that the offering period that commenced on January 1, 2019 was terminated, and a new two-year offering period commenced on July 1, 2019 and would end on June 30, 2021. This restart feature was triggered again on the purchase date that occurred on December 31, 2019, such that the offering periods that commenced on each of July 1, 2018 and July 1, 2019 were terminated, and a new two-year offering period commenced on January 1, 2020 and would end on December 31, 2021. This restart feature was triggered again on the purchase date that occurred on June 30, 2020, such that the offering period that commenced on January 1, 2020 was terminated, and a new two-year offering period commenced on July 1, 2020 and will end on June 30, 2022. The Company applied share-based payment modification accounting to the awards that were initially valued at the grant date to determine the amount of any incremental fair value associated with the modified awards. The impact to stock-based compensation expense for modifications during the nine months ended September 30, 2020 was immaterial.

During the nine months ended September 30, 2020 and 2019, there were 78,360 and 64,008 shares of common stock, respectively, purchased under the ESPP. The Company recognized $0.7 million and $0.6 million in expense related to the ESPP for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, 202,102 shares were available under the ESPP for future issuance.

The Company estimates the fair value of shares issued to employees under the ESPP using the Black-Scholes-Merton option-pricing model. The following weighted average assumptions were used in the calculation of fair value of shares under the ESPP at the grant date for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Expected dividend yield	— %	— %	— %	— %
Risk-free interest rate	0.2 %	1.9 %	0.7 %	1.4 %
Expected volatility	65.2 %	36.6 %	24.7 %	21.9 %
Expected term (in years)	1.3	1.3	0.8	0.7

10. LEASES

The impact of the adoption of Topic 842 to the Company's applicable balance sheet items as of January 1, 2020 is presented in the table below. The standard did not have a material impact to the Company's unaudited condensed consolidated statements of operations or comprehensive loss or cash flows.

(in thousands)	December 31, 2019	Impact of Adoption of ASC 842	January 1, 2020
ASSETS			
Right of use assets	$ —	$ 9,059	$ 9,059
Total assets	$ 141,718	$ 9,059	$ 150,777
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Other accrued expenses and current liabilities	5,444	(138)	5,306
Current portion of operating lease liabilities	—	2,080	2,080
Total current liabilities	30,478	1,942	32,420
Operating lease liabilities, net of current portion	—	8,367	8,367
Other liabilities	1,480	(1,250)	230
Total liabilities	$ 31,958	$ 9,059	$ 41,017
Total stockholders' equity	$ 109,760	$ —	$ 109,760
Total liabilities and stockholders' equity	$ 141,718	$ 9,059	$ 150,777

The Company determines if an arrangement is a lease at inception. The Company's leases primarily relate to administrative, manufacturing, research, and distribution facilities and various manufacturing, office and transportation equipment. Lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company's incremental borrowing rate is used as a discount rate, based on the information available at the commencement date, in determining the present value of lease payments. Lease assets also include the impact of any prepayments made and are reduced by impact of any lease incentives.

The Company made an accounting policy election for short-term leases, such that the Company will not recognize a lease liability or lease asset on its balance sheet for leases with a lease term of twelve months or less as of the commencement date. Rather, any short-term lease payments will be recognized as an expense on a straight-line basis over the lease term. The current period short-term lease expense reasonably reflects the Company's short-term lease commitments.

The Company made a policy election for all classifications of leases to combine lease and non-lease components and to account for them as a single lease component. Variable lease payments are excluded from the lease liability and recognized in the period

in which the obligation is incurred. Additionally, lease terms may include options to extend or terminate the lease when it is reasonably certain the Company will exercise the option.

The Company's lease portfolio only includes operating leases. As of September 30, 2020, the weighted average remaining lease term of these operating leases was 5.5 years and the weighted average discount rate was 6.5%. For the three and nine months ended September 30, 2020, lease expense, which represents expense from operating leases, was $0.5 million and $1.6 million, respectively.

A summary of the Company's remaining lease liabilities at September 30, 2020 are as follows:

	Operating Leases (In thousands)
2020	1,004
2021	2,220
2022	2,241
2023	1,566
2024	1,372
Thereafter	3,275
Total undiscounted value of lease liabilities	$ 11,678
Less: present value adjustment	(1,887)
Less: short-term leases not capitalized	(431)
Present value of lease liabilities	9,360
Less: current portion of lease liability	(2,130)
Operating lease liability, less current portion	$ 7,230

11. INCOME TAXES

The following table summarizes the Company's effective tax rate for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Reported income tax expense rate	(1.0)%	(2.4)%	(0.4)%	(0.9)%

The Company recorded a provision for income tax expense for the three and nine months ended September 30, 2020 primarily related to foreign and state operations.

In addition, for all periods presented, the pretax losses incurred by the consolidated U.S. tax group received no corresponding tax benefit because the Company concluded that it is more likely than not that the Company will be unable to realize the value of any resulting deferred tax assets. The Company will continue to assess its position in future periods to determine if it is appropriate to reduce a portion of its valuation allowance in the future.

On March 27, 2020, Congress enacted the CARES Act to provide certain relief as a result of the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to net operating loss carryback periods, alternative minimum tax credit refunds, and modification to the net interest deduction limitations. The CARES Act did not have a material impact on the Company's consolidated financial statements for the three or nine months ended September 30, 2020. The Company continues to monitor any effects on its financial statements that may result from the CARES Act.

12. COMMITMENTS AND CONTINGENCIES

In consideration for certain technology, manufacturing, distribution, and selling rights and licenses granted to the Company, the Company agreed to pay royalties on sales of certain products sold by the Company. Except for the royalties paid to NLT, the royalties the Company paid are included as a component of cost of goods sold in the consolidated statements of operations.

The Company is subject to various legal proceedings in the ordinary course of its business with respect to its products, its current or former employees, and its commercial relationships, some of which have been settled by the Company. In the opinion of management, such proceedings are either adequately covered by insurance or otherwise indemnified, or are not expected, individually or in the aggregate, to result in a material adverse effect on the Company's financial condition. However, it is possible that the Company's results of operations, financial position and cash flows in a particular period could be materially affected by these contingencies.

The Company accrues for loss contingencies when it is deemed probable that a loss has been incurred and that loss is estimable. The amounts accrued are based on the full amount of the estimated loss before considering insurance proceeds, and do not include an estimate for legal fees expected to be incurred in connection with the loss contingency. While uncertainty exists, the Company does not believe there are any pending legal proceedings that would have a material impact on the Company’s financial position, cash flows or results of operations.

13. SEGMENT AND GEOGRAPHIC INFORMATION

Segment Reporting

Management assessed its segment reporting based on how it internally manages and reports the results of its business to its chief operating decision maker. Management reviews financial results, manages the business and allocates resources on an aggregate basis. Therefore, financial results are reported in a single operating segment: the development, manufacture and marketing of orthobiologics and of spinal implants. The Company reports revenue in two product categories: orthobiologics and spinal implants. Orthobiologics products consist of a broad range of advanced and traditional bone graft substitutes that are designed to improve bone fusion rates following surgery. The spinal implants portfolio consists of an extensive line of products for minimally invasive surgery, complex spine, deformity and degenerative procedures. The Company attributes revenues to geographic areas based on the location of the customer.

The following table disaggregates revenue by major sales channel for each of the periods presented (in thousands):

	Three Months Ended September 30, 2020			*Nine Months Ended September 30, 2020*		
	United States	**International**	**Total**	**United States**	**International**	**Total**
Orthobiologics	$ 19,896	$ 1,711	$ 21,607	$ 49,922	$ 5,161	$ 55,083
Spinal implants	19,178	2,424	21,602	46,844	5,982	52,826
Total revenue, net	$ 39,074	$ 4,135	$ 43,209	$ 96,766	$ 11,143	$ 107,909

	Three Months Ended September 30, 2019			*Nine Months Ended September 30, 2019*		
	United States	**International**	**Total**	**United States**	**International**	**Total**
Orthobiologics	$ 18,165	$ 1,908	$ 20,073	$ 53,362	$ 5,821	$ 59,183
Spinal implants	17,371	2,444	19,815	49,197	6,964	56,161
Total revenue, net	$ 35,536	$ 4,352	$ 39,888	$ 102,559	$ 12,785	$ 115,344

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

The terms "we," "us," "our," "SeaSpine" or the "Company" refer collectively to SeaSpine Holdings Corporation and its wholly-owned subsidiaries, unless otherwise stated. All information in this report is based on our fiscal year. Unless otherwise stated, references to particular years, quarters, months or periods refer to our fiscal years ending December 31 and the associated quarters, months and periods of those fiscal years.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The matters discussed in these forward-looking statements are subject to risk and uncertainties that could cause actual results to differ materially from those made, projected or implied in the forward-looking statements. Such risks and uncertainties may also give rise to future claims and increase exposure to contingent liabilities. Please see the "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2019 (the 2019 10-K), as updated in our Quarterly Reports on Form 10-Q for quarters ended after that date, and as updated in our Current Report on Form 8-K dated April 6, 2020, for a discussion of the uncertainties, risks and assumptions associated with these statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

You can identify these forward-looking statements by forward-looking words such as "believe," "may," "could," "will," "estimate," "continue," "anticipate," "intend," "seek," "plan," "expect," "should," "would" and similar expressions.

These risks and uncertainties arise from (among other factors):

- *our expectations and estimates concerning future financial performance, financing plans and the impact of competition;*

- *our ability to successfully develop new and next-generation products and the costs associated with designing and developing those new and next-generation products, including risks inherent in newly initiated collaborations, such as with restor3d, Inc. and 7D Surgical, or use of nascent manufacturing techniques, such as additive processing/3D printing;*

- *physicians' willingness to adopt our recently launched and planned products, customers' continued willingness to pay for our products and third-party payors' willingness to provide or continue coverage and appropriate reimbursement for any of our products and our ability to secure regulatory clearance and/or approval for products in development;*

- *our ability to attract and retain new, high-quality distributors, whether as a result of perceived deficiencies, or gaps, in our existing product portfolio, inability to reach agreement on financial or other contractual terms or otherwise, as well as disruption associated with restrictive covenants to, which distributors may be subject and potential litigation and expense associate therewith;*

- *the impact that the COVID-19 pandemic may have with respect to deferrals of procedures using our products, disruptions or restrictions on the ability of many of our employees and of third parties on which we rely to work effectively, and temporary closures of our facilities and of the facilities of our customers and suppliers;*

- *the full extent to which the COVID-19 pandemic will, directly or indirectly, impact our business, results of operations and financial condition, including our sales, expenses, supply chain integrity, manufacturing capability, research and development activities, and employee-related compensation, including as a result of (1) a resurgence in COVID-19 transmission and infection after the loosening of "stay at home" restrictions or resumption of surgical procedures, (2) actions required or recommended to contain or treat COVID-19, in light of any or all of the foregoing or other as-yet unanticipated developments, and (3) the direct and indirect economic impact, both domestically and abroad, of COVID-19 as a result of any or all of the foregoing, including actions taken by local, state, national and international governmental agencies, whether such impact affects customers, suppliers, or markets generally, all of which currently are highly uncertain;*

- *our ability to continue to invest in medical education and training, product development, and/or sales and commercial marketing initiatives at levels sufficient to drive future revenue growth;*

- *anticipated trends in our business, including consolidation among hospital systems, healthcare reform in the United States, increased pricing pressure from our competitors or hospitals, exclusion from major healthcare systems, whether as a result of unwillingness to provide required pricing or otherwise, and changes in third-party payment systems;*

- *the risk of supply shortages, and the associated potentially long-term disruption to product sales, including as a result of our dependence on PcoMed to supply products incorporating NanoMetalene technology and a limited number of third-party suppliers for components and raw materials and certain processing services;*

- *unexpected expenses and delay and our ability to manage timelines and costs related to manufacturing our products including as a result of litigation or developing and supporting the full commercial launch of new products;*

- *our ability to obtain additional debt and equity financing to fund capital expenditures and working capital requirements and acquisitions;*

- *our ability to complete acquisitions, integrate operations post-acquisition and maintain relationships with customers of acquired entities;*

- *our ability to support the safety and efficacy of our products with long-term clinical data;*

- *existing and future regulations affecting our business, both in the United States and internationally, and enforcement of those regulations;*

- *our ability to protect our intellectual property, including unpatented trade secrets, and to operate without infringing or misappropriating the proprietary rights of others;*

- *general economic and business conditions, in both domestic and international markets; and*
- *other risk factors described in our other SEC filings, including in the section entitled "Risk Factors" of the 2019 10-K, in Item 8.01 of our Current Report on Form 8-K dated April 6, 2020, and in Part II, Item 1A of our Quarterly Reports on Form 10-Q for quarters ended after December 31, 2019.*

These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements included in this report.

Overview

We are a global medical technology company focused on the design, development and commercialization of surgical solutions for the treatment of patients suffering from spinal disorders. We have a comprehensive portfolio of orthobiologics and spinal implant solutions to meet the varying combinations of products that neurosurgeons and orthopedic spine surgeons need to perform fusion procedures in the lumbar, thoracic and cervical spine. We believe this broad combined portfolio of orthobiologics and spinal implant products is essential to meet the "complete solution" requirements of such surgeons.

We report revenue in two product categories: orthobiologics and spinal implants. Our orthobiologics products consist of a broad range of advanced and traditional bone graft substitutes designed to improve bone fusion rates following a wide range of orthopedic surgeries, including spine, hip, and extremities procedures. Our spinal implant portfolio consists of an extensive line of products to facilitate spinal fusion in degenerative, minimally invasive surgery (MIS), and complex spinal deformity procedures.

Our U.S. sales organization consists of regional and territory managers who oversee a broad network of independent orthobiologics and spinal implant sales agents. We pay these sales agents commissions based on the sales of our products. Our international sales organization consists of a sales management team that oversees a network of independent orthobiologics and spinal implant stocking distributors that purchase products directly from us and independently sell them. For each of the three and nine months ended September 30, 2020 and 2019, international sales accounted for approximately 10% of our revenue. Our policy is not to sell our products through or to participate in physician-owned distributorships.

SeaSpine was incorporated in Delaware on February 12, 2015 in connection with the spin-off of the orthobiologics and spinal implant business of Integra LifeSciences Holdings Corporation. The spin-off occurred on July 1, 2015.

Components of Our Results of Operations

Revenue

Our net revenue is derived primarily from the sale of orthobiologics and spinal implant products across North America, Europe, Asia Pacific and Latin America. Sales are reported net of returns, rebates, group purchasing organization fees and other customer allowances.

In the United States, we generate most of our revenue by consigning our orthobiologics products and by consigning or loaning our spinal implant sets to hospitals and independent sales agents, who in turn either deliver them to hospitals for a single surgical procedure, after which they are returned to us, or leave them with hospitals that are high volume users for multiple procedures. The spinal implant sets typically contain the instruments, disposables, and spinal implants required to complete a surgery. We ship replacement inventory to independent sales agents to replace the consigned inventory used in surgeries. We maintain and replenish loaned sets at our kitting and distribution centers and return replenished sets to a hospital or independent sales agent for the next procedure. We recognize revenue on these consigned or loaned products when they have been used or implanted in a surgical procedure.

For all other sales transactions, including sales to international stocking distributors and private label partners, we generally recognize revenue when the products are shipped and the customer or stocking distributor obtains control of the products. There is generally no customer acceptance or other condition that prevents us from recognizing revenue in accordance with the delivery terms for these sales transactions.

Cost of Goods Sold

Cost of goods sold primarily consists of the costs of finished goods purchased directly from third parties and raw materials used in the manufacturing of our products, plant and equipment overhead, labor costs and packaging costs. The majority of our orthobiologics products are designed and manufactured internally. The cost of human tissue and fixed manufacturing overhead costs are significant drivers of the cost of goods sold, and consequently our orthobiologics products, at current production volumes, generate lower gross margin than our spinal implant products. We rely on third-party suppliers to manufacture our spinal implant products, and we assemble them into surgical sets at our kitting and distribution centers. The cost to inspect incoming finished goods is included in the cost of goods sold. Other costs included in cost of goods sold include amortization of product technology intangible assets, royalties, scrap and consignment losses, and charges for expired, excess and obsolete inventory.

Selling and Marketing Expense

Our selling and marketing expenses consist primarily of sales commissions to independent sales agents, payroll and other headcount related expenses, marketing expenses, shipping, third-party logistics expenses, depreciation of instrument sets, instrument replacement expense, and cost of medical education and training.

General and Administrative Expense

Our general and administrative expenses consist primarily of payroll and other headcount related expenses and expenses for information technology, legal, human resources, insurance, finance, and management. We also record gains or losses associated with changes in the fair value of contingent consideration liabilities in general and administrative expenses.

Research and Development Expense

Our research and development (R&D) expenses primarily consist of expenses related to the headcount for engineering, product development, clinical affairs and regulatory functions, as well as consulting services, third-party prototyping services, outside research and clinical studies activities, and materials, production and other costs associated with development of our products. We expense R&D costs as they are incurred.

While our R&D expenses fluctuate from period to period based on the timing of specific initiatives, we expect these costs will increase over time as we continue to design and commercialize new products and expand our product portfolio, add related personnel and conduct additional clinical activities.

Intangible Amortization

Our intangible amortization, including the amounts reported in cost of goods sold, consists of acquisition-related amortization. We expect total annual amortization expense (including amounts reported in cost of goods sold) to be approximately $4.2 million in 2020, $4.2 million in 2021, $4.1 million in 2022, $3.4 million in 2023 and $1.5 million in 2024. See “RESULTS OF OPERATIONS-Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019-Impairment of Intangible Assets,” below.

COVID-19 Pandemic - Impact on our Business

The COVID-19 pandemic has presented a substantial public health and economic challenge around the world and has materially and adversely affected our business. We continue to closely monitor developments related to the pandemic and our decisions will continue to be driven by the health and well-being of our employees, our distributor and surgeon customers, and their patients while maintaining operations to support our customers and their patients in the near-term.

- *Surgery Deferrals*: From late March 2020 to mid-May 2020, among other impacts on our business related to the pandemic, surgeons and their patients deferred surgical procedures in which our products otherwise could have been used. This decrease in demand for our products recovered to varying degrees in the latter half of May and into the third quarter of 2020, though still below pre-pandemic levels, as local conditions improved in certain geographies that opened after an initial improvement in COVID-19 infection rates, allowing patients to resume receiving their treatments. However, a resurgence of infections has been observed, which may further restrict demand similar to early phases of the pandemic. As a result, we expect to see continued volatility through at least the duration of the pandemic as geographies respond to current local conditions. The duration of further deferrals of surgical procedures, the magnitude of such deferrals, the timing and extent of the economic impact of the pandemic, and the pace at which the economy recovers therefrom, cannot be determined at this time. We continue to work closely with our surgeon customers, distributors and suppliers to navigate through this unforeseen event while maintaining flexible operations and investing for future growth.
- *Operations*. Our sales, marketing and research and development efforts have continued since the outbreak of the pandemic, but steps we have taken in response to the pandemic have adversely affected our business. To protect the safety, health and well-being of our employees, distributor and surgeon customers, and communities, we implemented preventative measures including travel restrictions, the temporary closures of certain of our facilities, and requiring all office-based employees to work from home, except for those related to manufacturing, distribution and select others, as permitted under governmental orders. Production at our Irvine orthobiologics manufacturing facility was temporarily halted in April and May 2020 and was restarted in June 2020. The change in the manner in which our workforce is functioning could adversely affect sales and may delay the product launches we planned in 2020 and beyond. Due to patients resuming to receive surgical procedures in May and June, we proceeded with certain product launches we deferred during the early phases of the pandemic, however the pandemic could still adversely affect our future revenue growth or such growth may not be consistent with the timelines we anticipated previously.

Our manufacturing, distribution and supply chain has largely been uninterrupted, but could be disrupted as a result of the pandemic, including because of staffing shortages, production slowdowns, stoppages, or disruptions in delivery systems.

- *Cost Containment*: We continue to carefully manage expenses and cash spend to preserve liquidity and we initiated actions to generate savings in areas such as travel, events, clinical studies, and consulting. We also implemented a temporary freeze on new hires and our senior leadership team voluntarily agreed to a 25% reduction in their base salaries from April 26, 2020 through June 20, 2020.
- *Product Development*: In the early stages of the pandemic, we reduced and/or delayed spending on several planned product development and launch initiatives. We have since increased our spending on product development activities and capital expenditures and inventory for product launches from the reduced levels during the early stages of the pandemic as

our revenue and cash flow and demand for our products improved. We continue to evaluate the timing and scope of planned product development and launch initiatives and capital expenditures and inventory growth investments to support those initiatives. Based on that evaluation, we may delay and/or reduce additional spending associated with these initiatives, which may delay the product launches we planned in 2020 and beyond, and could adversely affect our future revenue growth or such growth may not be consistent with the timelines we anticipated previously.

- *Nine Months ended 2020 Results*. Due to the impacts from the pandemic, our total revenue, net, gross profit and gross margin for the nine months ended September 30, 2020 were significantly lower compared to the same periods in 2019.
- *Outlook.* At this time, the full extent of the impact of the pandemic on our business, financial condition and results of operations is uncertain and cannot be predicted with reasonable accuracy and will depend on future developments that are also uncertain and cannot be predicted with reasonable accuracy.

For additional information on the various risks posed by the pandemic on our business, financial condition and results of operations, please see Item 1A. Risk Factors in this report.

RESULTS OF OPERATIONS

(In thousands, except percentages)	Three Months Ended September 30, 2020	2019	2020 vs. 2019 % Change	Nine Months Ended September 30, 2020	2019	2020 vs. 2019 % Change
Total revenue, net	$ 43,209	$ 39,888	8 %	$ 107,909	$ 115,344	(6)%
Cost of goods sold	14,074	14,407	(2)%	39,545	42,303	(7)%
Gross profit	29,135	25,481	14 %	68,364	73,041	(6)%
Gross margin	67.4 %	63.9 %		63.4 %	63.3 %	
Operating expenses:						
Selling and marketing	22,163	21,682	2 %	59,652	60,552	(1)%
General and administrative	8,908	8,452	5 %	26,307	24,498	7 %
Research and development	3,917	3,896	1 %	11,786	10,995	7 %
Intangible amortization	793	792	— %	2,377	2,377	— %
Impairment of intangible assets	—	—	— %	1,325	4,993	(73)%
Total operating expenses	35,781	34,822	3 %	101,447	103,415	(2)%
Operating loss	(6,646)	(9,341)	(29)%	(33,083)	(30,374)	9 %
Other income (expense), net	136	(97)	(240)%	377	(49)	NM
Loss before income taxes	(6,510)	(9,438)	(31)%	(32,706)	(30,423)	8 %
Provision for income taxes	64	225	(72)%	132	265	(50)%
Net loss	$ (6,574)	$ (9,663)	(32)%	$ (32,838)	$ (30,688)	7 %

NM: not meaningful

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

Revenue

Total revenue, net for the three months ended September 30, 2020, was $43.2 million, an increase of 8% compared to the same period in 2019.

	Three Months Ended September 30,		2020 vs. 2019
	2020	2019	% Change
	(In thousands)		
Orthobiologics	**$ 21,607**	**$ 20,073**	8 %
United States	19,896	18,165	10 %
International	1,711	1,908	(10)%
Spinal Implants	**$ 21,602**	**$ 19,815**	9 %
United States	19,178	17,371	10 %
International	2,424	2,444	(1)%
Total revenue, net	**$ 43,209**	**$ 39,888**	8 %

	Three Months Ended September 30,		2020 vs. 2019
	2020	2019	% Change
	(In thousands)		
United States	$ 39,074	$ 35,536	10 %
International	4,135	4,352	(5)%
Total revenue, net	**$ 43,209**	**$ 39,888**	8 %

Revenue from orthobiologics sales totaled $21.6 million for the three months ended September 30, 2020, an increase of $1.5 million or 8%, from the same period in 2019. Revenue from orthobiologics sales in the United States increased $1.7 million to $19.9 million for the three months ended September 30, 2020 compared to the same period in 2019. This increase was driven by higher demand resulting from an expanded independent sales agent network for our recently launched products, specifically fibers-based demineralized bone matrix (DBM) products. Revenue from orthobiologics sales internationally, which can be volatile from quarter to quarter because of irregular ordering patterns from our stocking distributors, decreased $0.2 million for the three months ended September 30, 2020 compared to the same period in 2019.

Revenue from spinal implant sales was $21.6 million for the three months ended September 30, 2020, an increase of $1.8 million or 9%, from the same period in 2019. Revenue from spinal implants sales in the United States increased $1.8 million to $19.2 million for the three months ended September 30, 2020 compared to the same period in 2019. This increase was driven by higher demand for our recently launched products, specifically the Mariner MIS Posterior Fixation System, our suite of NanoMetalene with Reef Topography interbody implants and the posterior cervical NorthStar OCT system. During the three months ended September 30, 2020 as compared to the same period in 2019, the change in revenue from spinal implant sales internationally was immaterial.

Cost of Goods Sold and Gross Margin

Cost of goods sold decreased $0.3 million, to $14.1 million for the three months ended September 30, 2020, compared to the same period in 2019. Gross margin was 67.4% for the three months ended September 30, 2020 and 63.9% for the same period in 2019. The increase in gross margin was due primarily to the mix of higher margin U.S. product revenue as a percent of total revenue, lower excess and obsolete inventory charges and lower amortization of product technology intangible assets.

Cost of goods sold included $0.3 million and $0.4 million of amortization for product technology intangible assets for the three months ended September 30, 2020 and 2019, respectively.

Selling and Marketing

Selling and marketing expenses increased $0.5 million to $22.2 million for the three months ended September 30, 2020 compared to the same period in 2019. The increase was driven by higher marketing, customer service and logistics headcount and related expenses, third party logistics fees, and depreciation on surgical kits placed in service since the prior year period, which were partially offset by decreases in tradeshow and travel costs.

General and Administrative

General and administrative expenses increased $0.5 million to $8.9 million for the three months ended September 30, 2020, mostly due to higher stock-based compensation expense.

Research and Development

R&D expenses remained consistent at $3.9 million, or 9% of revenue, for the three months ended September 30, 2020 compared to the same period in 2019. Higher R&D headcount and related expenses were offset by the absence of the $0.5 million license fee paid in the prior year quarter related to a development and license agreement for 3D-printed implants.

Intangible Amortization

Intangible amortization expense, excluding the amounts reported in cost of goods sold for product technology intangible assets, remained consistent at $0.8 million for both the three months ended September 30, 2020 and 2019.

Income Taxes

	Three Months Ended September 30,	
	2020	2019
	(In thousands)	
Loss before income taxes	$ (6,510)	$ (9,438)
Provision for income taxes	64	225
Effective tax rate	(1.0)%	(2.4)%

We reported income tax expense for the three months ended September 30, 2020 and 2019 primarily related to foreign and state operations.

In addition, for any pretax losses incurred subsequent to the spin-off by the consolidated U.S. tax group, we recorded no corresponding tax benefit because we have concluded that it is more-likely-than-not that we will be unable to realize the benefit from any resulting deferred tax assets. We will continue to assess our position in future periods to determine if it is appropriate to reduce a portion of our valuation allowance in the future.

On March 27, 2020, Congress enacted the CARES Act to provide certain relief as a result of the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to net operating loss carryback periods, alternative minimum tax credit refunds, and modification to the net interest deduction limitations. The CARES Act did not have a material impact on our consolidated financial statements for the three and nine months ended September 30, 2020. We will continue to monitor any effects that may result on our consolidation financial statements from the CARES Act.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Revenue

Total revenue, net for the nine months ended September 30, 2020 was $107.9 million, a decrease of 6% compared to the same period in 2019.

	Nine Months Ended September 30,		2020 vs. 2019
	2020	2019	% Change
	(In thousands)		
Orthobiologics	**$ 55,083**	**$ 59,183**	(7)%
United States	49,922	53,362	(6)%
International	5,161	5,821	(11)%
Spinal Implants	**$ 52,826**	**$ 56,161**	(6)%
United States	46,844	49,197	(5)%
International	5,982	6,964	(14)%
Total revenue, net	**$ 107,909**	**$ 115,344**	(6)%

	Nine Months Ended September 30,		2020 vs. 2019
	2020	2019	% Change
	(In thousands)		
United States	$ 96,766	$ 102,559	(6)%
International	11,143	12,785	(13)%
Total revenue, net	**$ 107,909**	**$ 115,344**	(6)%

Revenue from orthobiologics sales totaled $55.1 million for the nine months ended September 30, 2020, a decrease of $4.1 million, from the same period in 2019. Revenue from orthobiologics sales in the United States decreased $3.4 million for the nine months ended September 30, 2020 compared to the same period in 2019. This decrease was driven by significantly lower demand during the second quarter of 2020 for our orthobiologics products due to hospitals and patients deferring procedures and other factors related to the impact of the COVID-19 pandemic. Revenue from orthobiologics sales internationally, which can be volatile from quarter to quarter because of irregular ordering patterns from our stocking distributors, decreased $0.7 million for the nine months ended September 30, 2020 compared to the same period in 2019 and was similarly affected by significantly reduced demand from our stocking distributors caused by the impact of the pandemic. See "COVID-19 Pandemic - Impact on our Business," above.

Revenue from spinal implant sales totaled $52.8 million for the nine months ended September 30, 2020, a decrease of $3.3 million, from the same period in 2019. Revenue from spinal implant sales in the United States decreased $2.4 million for the nine months ended September 30, 2020 compared to the same period in 2019. This decrease was driven by significantly lower demand during the second quarter of 2020 for our spinal implant products due to hospitals and patients deferring procedures and other factors related to the COVID-19 pandemic. Revenue from spinal implant sales internationally, which can be volatile from quarter to quarter because of irregular ordering patterns from our stocking distributors, decreased $1.0 million for the nine months ended September 30, 2020 compared to the same period in 2019 and was similarly affected by significantly reduced demand from our stocking distributors caused by the impact of the pandemic.

Cost of Goods Sold and Gross Margin

Cost of goods sold decreased $2.8 million to $39.5 million for the nine months ended September 30, 2020, compared to the same period in 2019. Gross margin was 63.4% for the nine months ended September 30, 2020, compared to 63.3% for the same period in 2019. The slight increase in gross margin was due primarily to lower excess and obsolete inventory charges and lower amortization of product technology intangible assets in the current year period, which were mostly offset by the impact of expensing all costs associated with our Irvine manufacturing facility while production there was temporarily halted during April and May 2020.

Cost of goods sold included $0.8 million and $1.9 million of amortization for product technology intangible assets, for the nine months ended September 30, 2020 and 2019, respectively.

Selling and Marketing

Selling and marketing expenses decreased $0.9 million to $59.7 million for the nine months ended September 30, 2020 compared to the same period in 2019. The decrease was mainly driven by lower sales commission expense due to a decline in revenue and decreases in tradeshow and travel costs, which were partially offset by higher marketing, customer service and logistics headcount and related expenses, third party logistics fees and depreciation on surgical kits placed in service since the prior year period.

General and Administrative

General and administrative expenses increased $1.8 million to $26.3 million for the nine months ended September 30, 2020 compared to the same period in 2019. The increase was primarily driven by a $0.6 million gain recorded in the prior year period for the decrease in fair value of contingent consideration related to the acquisition of assets from NLT, as well as higher general and administrative headcount and related expenses and bad debt provisions as compared to the prior year period.

Research and Development

R&D expenses increased $0.8 million to $11.8 million, or 11% of revenue, for the nine months ended September 30, 2020 compared to the same period in 2019. The increase was due to higher research and development headcount and related expenses, which were slightly offset by lower travel, consulting and other fees.

Intangible Amortization

Intangible amortization expense, excluding the amounts reported in cost of goods sold for product technology intangible assets, was $2.4 million for each of the nine months ended September 30, 2020 and 2019, respectively.

Impairment of Intangible Assets

Impairment of intangible assets was $1.3 million for the nine months ended September 30, 2020, compared to $5.0 million for the same period in 2019. During the nine months ended September 30, 2020, primarily as a result of an expected shift in future product revenue mix more toward a parallel expanding interbody device designed based on our internally developed technology and, in turn, lower future revenue anticipated for the lordotic expanding implant based on technology we acquired from NLT, our estimated future net sales associated with those NLT product technologies decreased. Accordingly, we evaluated the ongoing value of the product technology intangible assets associated with the acquisition of these assets. Based on this evaluation, we determined that intangible assets with a carrying amount of $1.6 million were no longer recoverable and were impaired, and we wrote those intangible assets down to their estimated fair value of $0.3 million. During the nine months ended September 30, 2019, we shifted our commercialization strategy with respect to the product technologies we acquired from NLT due to market trend factors, new features necessary to be competitive, and more cost-effective internal development initiatives. Accordingly, we evaluated the ongoing value of the product technology intangible assets associated with the acquisition of these assets. Based on this evaluation, we determined that intangible assets with a carrying amount of $6.8 million were no longer recoverable and were impaired, and we wrote those intangible assets down to their estimated fair value of $1.8 million.

Income Taxes

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Loss before income taxes	$ (32,706)	$ (30,423)
Provision for income taxes	132	265
Effective tax rate	(0.4)%	(0.9)%

We reported income tax expense for the nine months ended September 30, 2020 and 2019 primarily related to foreign and state operations. See “-Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019-Income Taxes,” above, for information related to the effect of the CARES Act on our taxes.

Business Factors Affecting the Results of Operations

Special Charges and Gains

We define special charges and gains as expenses and gains for which the amount or timing can vary significantly from period to period, and for which the amounts are non-cash in nature, or the amounts are not expected to recur at the same magnitude.

We believe that identification of these special charges and gains provides important supplemental information to investors regarding financial and business trends relating to our financial condition and results of operations. Investors may find this information useful in assessing comparability of our operating performance from period to period, against the business model objectives that management has established, and against other companies in our industry. We provide this information to investors so that they can analyze our operating results in the same way that management does and use this information in their assessment of our core business and valuation.

Loss before income taxes includes the following special charges/(gains) for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Special Charges/(Gains):	(In thousands)			
Impairment of intangible assets[1]	$ —	$ —	$ 1,325	$ 4,993
Loss/(Gain) from change in fair value of contingent consideration liabilities[2]	76	(65)	160	(571)
Total Special Charges/(Gains)	**$ 76**	**$ (65)**	**$ 1,485**	**$ 4,422**

(1) Relates to the impairment of the product technology intangible assets associated with the NLT acquisition.

(2) Relates to the net increase/(decrease) in the fair value of contingent liabilities associated with the NLT acquisition.

The items reported above are reflected in the consolidated statements of operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Impairment of intangible assets	$ —	$ —	$ 1,325	$ 4,993
General and administrative	76	(65)	160	(571)
Total Special Charges/(Gains)	**$ 76**	**$ (65)**	**$ 1,485**	**$ 4,422**

Liquidity and Capital Resources

Overview

As of September 30, 2020, we had cash, cash equivalents and investments totaling approximately $93.2 million, and $21.2 million of current borrowing capacity was available under our credit facility. We believe that our cash, cash equivalents and investments on hand and the amount currently available to us under our credit facility will be sufficient to fund our operations for at least the next twelve months.

Paycheck Protection Program Loan

In April 2020, due to the economic uncertainty resulting from the impact of the COVID-19 pandemic on our operations and to support our ongoing operations and retain all employees, we applied for a loan under the PPP of the CARES Act. We received a loan in the original principal amount of $7.2 million. We subsequently repaid $1.0 million of the loan. Under the terms of the PPP, subject to specified limitations, the loan may be forgiven if the proceeds are used in accordance with the CARES Act. We applied for forgiveness of the entire loan; however, no assurance is provided that we will obtain forgiveness of the loan in whole or in part. Any unforgiven portion of the loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months from the date of the loan.

Credit Facility

We have a $30.0 million credit facility with Wells Fargo Bank, National Association which matures in July 2021, subject to a one-time, one-year extension at our election. In addition, at any time through July 27, 2021, we may increase the borrowing limit by up to an additional $10.0 million, subject to us having sufficient amounts of eligible accounts receivable and inventory and to customary conditions precedent, including obtaining the commitment of lenders to provide such additional amount. At September 30, 2020, we had no outstanding borrowings under the credit facility. The borrowing capacity under the credit facility is determined monthly and is based on the amount of our eligible accounts receivable and inventory balances and qualified cash (as defined in the credit facility). Depending on the extent to which our eligible accounts receivable and inventory balances increase, our borrowing capacity could increase by as much as an additional $5.3 million from the $21.2 million available as of September 30, 2020 before we are required to maintain the minimum fixed charge coverage ratio discussed below. The credit facility contains various customary affirmative and negative covenants, including prohibiting us from incurring indebtedness without the lender’s consent. In April 2020, we received the lender’s consent to obtain the PPP loan. Under the terms of the credit facility, if our Total Liquidity (as defined in the credit facility) is less than $5.0 million, we are required to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 for the applicable measurement period. Our Total Liquidity was $112.2 million at September 30, 2020, and therefore that financial covenant was not applicable at that time.

Business Combinations

In August 2016, we entered into an asset purchase agreement with NLT to acquire certain of the assets of NLT’s medical device business related to the expandable interbody medical devices. We made an up-front cash payment of $1.0 million in connection with the initial closing in September 2016 and issued 350,000 shares of our common stock in January 2017 as contingent closing consideration. As of September 30, 2020, included in contingent consideration liabilities was a $0.1 million liability representing the estimated fair value of future contingent royalty payments based on percentages of our future net sales of certain of the products and technology we acquired, which we anticipate will become payable at varying times between 2020 and 2030. The contingent milestone payments, if any, are payable in cash or in shares of our common stock, at our election. In each of the months July 2020 and August 2020, we elected to pay $1.0 million of our milestone payments in shares of our common stock. The contingent royalty payments are payable in cash.

Underwritten Offering

In January 2020, we entered into an Underwriting Agreement with Piper Sandler & Co. and Canaccord Genuity LLC relating to the issuance and sale of 6,800,000 shares of our common stock at a public offering price of $12.50 per share, before underwriting discounts and commissions. We granted the underwriters an option, exercisable for 30 days, to purchase up to an additional 1,020,000 shares of common stock. The underwriters exercised this option and the offering closed on January 10, 2020 with the sale of 7,820,000 shares of our common stock, resulting in proceeds of approximately $91.6 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the

remaining proceeds for general corporate purposes, including research and development, general and administrative expenses, capital expenditures and general working capital purposes.

Cash and Cash Equivalents

We had cash and cash equivalents totaling approximately $78.2 million and $20.2 million at September 30, 2020 and December 31, 2019, respectively.

Cash Flows

	Nine Months Ended September 30,		2020 vs. 2019
	2020	2019	% Change
	(In thousands)		
Net cash used in operating activities	$ (14,032)	$ (15,130)	(7)%
Net cash (used in) provided by investing activities	(25,428)	14,663	(273)%
Net cash provided by (used in) financing activities	97,388	(1,267)	NM
Effect of exchange rate changes on cash and cash equivalents	61	(185)	(133)%
Net change in cash and cash equivalents	$ 57,989	$ (1,919)	NM

NM: not meaningful

Net Cash Flows Used in Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2020 decreased by $1.1 million compared to the same period in 2019. The decrease was due to a $3.2 million lower change in working capital, with a $3.7 million increase in working capital for the nine months ended September 30, 2020 compared to a $6.9 million increase in working capital for the nine months ended September 30, 2019. The lower working capital change was mostly related to a decrease in accounts receivable due to lower year-over-year sales. This was offset by a $2.1 million higher net loss adjusted for non-cash items of $10.3 million for the nine months ended September 30, 2020, compared to $8.2 million for the nine months ended September 30, 2019.

Net Cash Flows (Used in) Provided by Investing Activities

Net cash used in investing activities was $25.4 million for the nine months ended September 30, 2020 compared to net cash provided by investing activities of $14.7 million for the same period in 2019. The change was primarily due to $25.0 million in purchases of our investments in U.S. Treasury Bills during the nine months ended September 30, 2020 compared to no purchases of short-term investments for the same period in 2019, and $10.0 million in maturities during the nine months ended September 30, 2020 compared to $25.0 million in maturities of short-term investments for the same period in 2019.

Net Cash Flows Provided by (Used in) Financing Activities

Net cash provided by financing activities was $97.4 million for the nine months ended September 30, 2020. It was comprised primarily of $91.6 million proceeds from issuance of common stock, net of offering costs, $6.2 million of net proceeds from the PPP loan, $0.7 million of proceeds from the issuance of common stock under our ESPP, and $1.1 million of proceeds from the exercise of stock options, offset by $2.1 million of cash for tax payments we made on our employees' behalf for shares we withheld from such employees on the vesting of restricted stock awards to cover statutory tax withholding requirements and $0.1 million of contingent consideration payments to NLT. Net cash used in financing activities was $1.3 million for the nine months ended September 30, 2019. It was comprised primarily of $2.1 million of cash for tax payments we made on our employees' behalf for shares we withheld from such employees on the vesting of restricted stock awards to cover statutory tax withholding requirements, partially offset by $0.7 million of proceeds from the issuance of common stock under our ESPP and by $0.2 million of proceeds from the exercise of stock options.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of September 30, 2020 that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our business.

Contractual Obligations and Commitments

There have been no material changes outside the ordinary course of our business to the contractual obligations disclosed in the 2019 10-K.

Other Matters

Critical Accounting Policies and the Use of Estimates

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparing these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the consolidated financial statements include revenue recognition, allowances for doubtful accounts receivable and sales return and other credits, net realizable value of inventories, amortization periods for acquired intangible assets, estimates of projected cash flows and discount rates used to value intangible assets and test them for impairment, estimates of projected cash flows and assumptions related to the timing and probability of the product launch dates, discount rates matched to the timing of payments, and probability of success rates used to value contingent consideration liabilities from business combinations, estimates of projected cash flows and depreciation and amortization periods for long-lived assets, valuation of stock-based compensation, computation of taxes and valuation allowances recorded against deferred tax assets, and loss contingencies. These estimates are based on historical experience and on various other assumptions believed to be reasonable under the current circumstances. Actual results could differ from these estimates.

Note 2, “Summary of Significant Accounting Policies” to the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and included in Part II, Item 8 of the 2019 10-K describe the significant accounting policies and estimates used in the preparation of our condensed consolidated financial statements. Other than the adoption of Topic 842, those policies and estimates disclosed in the 2019 10-K have not materially changed.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition, including sales, expenses, manufacturing, research and development costs and employee-related compensation, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain it or treat COVID-19, as well as the economic impact on local, regional, national and international customers and markets. We have made estimates of the impact of COVID-19 within our financial statements and there may be changes to those estimates in future periods. Actual results may differ from these estimates.

Recently Issued Accounting Pronouncements

Information regarding new accounting pronouncements is included in Note 2, "Summary of Significant Accounting Policies," to the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act that occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to legal proceedings and claims in the ordinary course of business. Management presently believes that each of these claims is meritless and, if litigated, the likelihood of loss is remote and/or that, individually and in the aggregate, any loss would not materially harm our financial position, cash flows, or overall results of operations, in part because of the insurance policies we maintain that cover certain of these claims. However, legal proceedings are subject to inherent uncertainties and unfavorable rulings or outcomes could occur that have, individually or in aggregate, a material adverse effect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS

Except as set forth below, the risk factors described in the 2019 10-K have not materially changed.

Our PPP loan may not be forgiven and may subject us to challenges and investigations regarding qualification for the loan.

In April 2020, due to the economic uncertainty resulting from the impact of the COVID-19 pandemic on our operations and to support our ongoing operations and retain all employees, we applied for, and received, a loan under the PPP of the CARES Act administered by the U.S. Small Business Administration (SBA). The original principal amount of the loan was $7.2 million; we subsequently repaid $1.0 million. Under the terms of the PPP, subject to specified limitations, the loan may be forgiven if the proceeds are used in accordance with the CARES Act, including for qualifying expenses, which include payroll costs, rent, and utility costs, over the allowable measurement period following receipt of the loan proceeds.

The PPP loan application required us to certify that the current economic uncertainty made the loan request necessary to support our ongoing operations. We made this certification in good faith after carefully considering the facts and circumstances, and although we believe we satisfied all eligibility criteria for the PPP loan and our receipt of the PPP loan is consistent with the objectives of the PPP, the certification described above does not contain objective criteria and is subject to interpretation. Further, following the date we applied for the PPP Loan, the SBA issued updated guidance regarding the PPP, including regarding required borrower certifications and requirements for loan forgiveness. The SBA stated that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and that all PPP loans in excess of $2 million will be subject to review by the SBA for compliance with program requirements. The lack of clarity regarding loan eligibility under the PPP resulted in significant media coverage and controversy regarding public companies applying for and receiving PPP loans. We applied for forgiveness of the entire loan, and in connection therewith we were required to make certain certifications that will be subject to audit and review by governmental entities and could subject us to significant penalties and liabilities if found to be inaccurate. No assurance is provided that we will obtain forgiveness of the loan in whole or in part. Any unforgiven portion of the loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months from the date of the loan. In addition, if despite our good faith belief that we satisfied all eligibility requirements for the PPP loan, we are found to have been ineligible to receive it or in violation of any of the laws or regulations that apply to us in connection with the PPP loan, including the False Claims Act, we may be subject to penalties, including significant civil, criminal and administrative penalties, and could have to repay the PPP loan upon demand. If we are audited or reviewed by the U.S. Department of the Treasury or the SBA, such audit or review could result in the diversion of management's time and attention, generate negative publicity and cause us to incur legal and reputational costs. In addition, our receipt of the PPP loan may result in adverse publicity and damage to our reputation. Any of these events could harm our business, results of operations and financial condition.

Our business, financial condition and results of operations will continue to be materially and adversely impacted in the near-term, and could be materially and adversely impacted beyond 2020, by the COVID-19 pandemic.

The COVID-19 pandemic materially and adversely impacted our business and we expect the impact to continue through at least the duration of the pandemic as regions respond to local conditions. To date, the impacts include: the deferral of procedures using our products; disruptions or restrictions on the ability of many of our employees and of third parties on which we rely to work effectively, including because of stay-at-home orders and similar government actions; and temporary closures of our facilities and of the facilities of our customers and suppliers. As jurisdictions throughout the world continue to deal with and respond to the pandemic, the degree of the foregoing impacts may increase in scope or magnitude or we may experience additional material adverse impacts in one or more regions. Any other outbreaks of contagious diseases or other adverse public health developments in countries where we operate or where our customers or suppliers are located could also have a material and adverse effect on our business, financial condition and results of operations.

Because of the pandemic, surgeons and their patients were required, and in certain regions continue to be required, or are choosing, to defer procedures in which our products otherwise could be used, and many facilities that specialize in the procedures in which our products otherwise could be used temporarily closed or continue to be temporarily closed or operating at reduced hours. In addition, even after the pandemic subsides and/or governmental orders no longer prohibit or recommend against performing such procedures, patients may continue to defer such procedures out of concern of being exposed to COVID-19 or for other reasons. Further, facilities at which our products typically are used may not reopen or, even if they reopen, patients may elect to have procedures performed at facilities that are, or are perceived to be, lower-risk, such as ambulatory surgery centers, and our products may not be approved at such facilities, and we may be unable to have our products approved for use at such facilities on a timely basis, or at all. The effect of the pandemic on the broader economy could also negatively affect demand for procedures using our products, both in the near- and long-term.

Workforce limitations and travel restrictions resulting from government actions taken to contain the spread of COVID-19 has and will continue to adversely affect almost every aspect of our business. If a significant percentage of our workforce, or of the workforce of third parties on which we rely, cannot work, including because of illness or travel or government restrictions, our operations may be negatively affected. Because of government restrictions and social distancing guidelines in many countries around the world, there is an increased reliance on working from home for our workforce and on the workforce of third parties on which we rely. For example, most of our independent sales agents currently are working largely using virtual and online engagement tools and tactics, which may be less effective than our ordinary, in-person sales and marketing programs. In addition, we reduced access to our hands-on cadaveric training facility in Carlsbad, California, which, in turn, adversely impacted our ability to educate and train surgeons and sales agents on the proper use of our products (which may make surgeons and sales agents less comfortable using, and therefore less likely to use, our products), and which we expect will also limit our ability to develop, and therefore launch, the products we believe will drive our future revenue growth on the timelines we anticipated previously, or at all. The change in the manner in which our workforce is functioning could also delay the launch of products we planned to launch in 2020 and beyond. It may also cause us not to timely submit required filings, including with the U.S. Securities and Exchange Commission, U.S. Food and Drug Administration (FDA), or other regulatory bodies, both in the U.S. and outside the U.S., any of which by itself may have a negative effect on our business, such as by making us ineligible to conduct an offering under a Form S-3 registration statement, which generally takes less time and is less expensive than other means, such as conducting an offering under a Form S-1 registration statement. In addition, changes impacting workforce function at the FDA and other regulatory bodies, as well as changes impacting workforce function at the facilities at which we seek to have new products approved for use, could adversely impact the timing of when our new products are cleared for marketing and approved for use, either of which could adversely impact the timing of our ability to sell these new products and could have a material and adverse effect on our revenue growth.

Further, disruptions in the manufacture and/or distribution of our products or in our supply chain may occur as a result of the pandemic, including for the reasons above, or other events that result in staffing shortages, production slowdowns, stoppages, or disruptions in delivery systems, any of which could materially and adversely affect our ability to manufacture and/or distribute our products, or to obtain the raw materials and supplies necessary to manufacture and/or distribute our products, in a timely manner, or at all. See "*If any of our manufacturing, development or research facilities are damaged and/or our manufacturing processes are interrupted, we could experience supply disruptions, lost revenues and our business could be seriously harmed*" and "*In addition to PcoMed, we depend on a limited number of third-party suppliers for components and raw materials and losing any of these suppliers, or their inability to provide us with an adequate supply of materials that meet our quality and other requirements, could harm our business*" in Item 1A. Risk Factors in Part I of the 2019 10-K (the "**10-K Risk Factors**").

We may also experience other unknown adverse impacts from the pandemic that cannot be predicted. For example, hospitals and other facilities at which we sell our products may renegotiate their purchase prices, including as a result of, or the perception they may be suffering, financial difficulty as a result of the pandemic. Similarly, facilities at which we seek to sell our products in the future may require price reductions relative to the price at which we previously expected to sell our products. Reduction in the prices at which we sell products to existing customers may have a material and adverse effect on our future financial results and reductions in the prices at which we expected to sell products to anticipated customers may have a material and adverse effect on our expectations for revenue growth. See "*Changes in third-party payment systems and in the healthcare industry may require us to decrease the selling price for our products, may reduce the size of the market for our products, or may eliminate a market, any of which could have a material and adverse effect on our financial performance*" in the 10-K Risk Factors.

Further, the global capital markets experienced, and we expect will continue to experience, disruption and volatility due to the pandemic, adversely impacting access to capital not only for us, but also for our customers and suppliers who need access to capital. Their inability to access capital in a timely manner, or at all, could adversely impact demand for our products and/or adversely impact our ability to manufacture and/or supply our products, any of which could have a material and adverse effect on our business. See "*Our future capital needs are uncertain and we may need to raise additional funds in the future, and such*

funds may not be available on acceptable terms or at all," "*The market price of our common stock has been and likely will continue to be volatile*," and "*Your percentage of ownership in us may be diluted and issuances of substantial amounts of our common stock, or the perception that such issuances may occur, could cause the market price of our common stock to decline significantly, even if our business is performing well*" in the 10-K Risk Factors.

The full extent to which the pandemic will, directly or indirectly, impact our business, results of operations and financial condition, including our sales, expenses, supply chain integrity, manufacturing capability, research and development activities, and employee-related compensation, is currently highly uncertain and cannot be predicted with reasonable accuracy at this time and will depend on future developments that are also highly uncertain and cannot be predicted with reasonable accuracy at this time, including, without limitation: (a) new information that may emerge concerning COVID-19, its contagiousness and/or virulence; (b) resurgences in COVID-19 transmission and infection following the easing or lifting of "stay-at-home" or other restrictions or following resumption of surgical procedures, whether as a result thereof, as a result of reinfection, as a result of a delay in the emergence of symptoms following infection (or reinfection) by COVID-19, or as a result of its ability to lay dormant following infection (or reinfection), and the adverse impact the foregoing may have on our business and financial condition, including because of the adverse impact on patients' willingness to undergo procedures in which our products could be used; (c) actions required or recommended to contain or treat COVID-19, in light of any or all of the foregoing or other as-yet unanticipated developments, whether related to COVID-19 directly or indirectly; and (d) the direct and indirect economic impact, both domestically and abroad, of COVID-19 as a result of any or all of the foregoing, including actions taken by local, state, national and international governmental agencies, whether such impact affects customers, suppliers, or markets generally.

The pandemic also heightens the risks in certain of the other risk factors described in in the 10-K Risk Factors, including, without limitation, those related to:

(1) our ability to compete successfully in the highly competitive industry in which we operate as result of the uncertainty of the full extent of the impact of the pandemic on our business, financial condition and results of operations (see "*We operate in an industry and in market segments that are highly competitive and we may not compete successfully*" in the 10-K Risk Factors);

(2) our ability to (a) effectively demonstrate to neurosurgeon and orthopedic spine surgeons the merits of our products compared to those of our competitors and (b) successfully educate and train surgeons and their staff on the proper use of our products in light of the reduced access to our hands-on cadaveric training facility in Carlsbad, California or if we are required to or elect to temporarily close it, which is the primary manner in which we offer such education and training (see "*To be commercially successful, we must effectively demonstrate to neurosurgeon and orthopedic spine surgeons the merits of our products compared to those of our competitors*" and "*We must successfully educate and train surgeons and their staff on the proper use of our products*," in the 10-K Risk Factors);

(3) our ability to develop and launch new products in a timely and consistent manner in light of (a) the reduced access to our hands-on cadaveric training facility in Carlsbad, California or if we are required to or elect to temporarily close it, which will limit our ability to develop and launch the products we believe will drive our future revenue growth on the timelines we anticipated previously, or at all, (b) the change in the manner in which our workforce is functioning and (c) the changes impacting workforce function at the FDA and other regulatory bodies, as well as changes impacting workforce function at the facilities at which we seek to have new products approved for use (see "*We may not develop new products in a timely and consistent manner, and failure to do so may adversely affect the attractiveness of our overall product portfolio to our surgeon customers and negatively impact our sales and market share*" in the 10-K Risk Factors);

(4) our ability to maintain or expand our network of independent sales agents and stocking distributors (see "*If we are unable to maintain and expand our network of independent sales agents and stocking distributors, we may not maintain or grow our revenue*" in the 10-K Risk Factors);

(5) an inability to conduct clinical studies effectively to demonstrate the safety and efficacy of our products as a result of, among other things, cost-savings measure we implement or the closure or reduced operating hours of the sites at which such clinical studies would be conducted (see "*Sales of, or the price at which we sell, our products may be adversely affected unless the safety and efficacy of our products, alone and relative to competitive products, is demonstrated in clinical studies*" and "*If the third parties on which we rely to conduct our clinical studies and to assist us with pre-clinical development do not perform as contractually required or expected, we may not obtain regulatory clearance, approval or a CE Certificate of Conformity for or commercialize our products*" in the 10-K Risk Factors);

(6) our ability to maintain the integrity of our data and to avoid security breaches, loss of data, and other disruptions that could compromise sensitive information as a result of most of our workforce working remotely in environments that may be less secure than our office environment and the increased use of video conferencing and other technologies to conduct business virtually in light of the pandemic (see "*We depend on information technology and if our information technology fails to operate adequately or fails to properly maintain the integrity of our data, our business could be*

materially and adversely affected" and "*Security breaches, loss of data and other disruptions could compromise sensitive information related to our business, prevent us from accessing critical information or expose us to liability, which could adversely affect our business and our reputation*" in the 10-K Risk Factors);

(7) increased exposure to uninsured risks (see "*Our insurance policies are expensive and protect us only from some risks, which will leave us exposed to significant uninsured liabilities*" in the 10-K Risk Factors);

(8) our inability to increase our international sales and a potential adverse impact by changes in foreign currency exchange rates in light of the pandemic (see "*We are exposed to a variety of risks relating to our international sales and operations*" in the 10-K Risk Factors);

(9) fluctuation in our sales volumes and operating results as a result of the adverse effects of the pandemic (see "*Our sales volumes and our operating results may fluctuate*" in the 10-K Risk Factors); and

(10) increased economic instability around the world in light of the pandemic (see "*Continuing economic instability, including challenges faced by European countries, may adversely affect the ability of hospitals and other customers to access funds or otherwise have available liquidity, which could reduce orders for our products or impede our ability to obtain new customers, particularly in European markets*" in the 10-K Risk Factors).

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

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer

The table below is a summary of purchases of our common stock we made during the quarter covered by this report. Other than as indicated in the table below, no such purchases were made in any other month during the quarter. We do not have any publicly announced repurchase plans or programs.

Period	Total Number of Shares Purchased (1)		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
July 1 - July 31	13,260	$	10.17	—	—
August 1 - August 31	737	$	10.26	—	—
September 1 - September 30	2,114	$	12.90	—	—

(1) These shares were surrendered to the Company to satisfy tax withholdings obligations in connection with the vesting of restricted stock awards.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1[(1)]	Second Amendment to Amended and Restated Credit Agreement made as of July 30, 2020 by and among Wells Fargo Bank, N.A., as administrative agent for each member of the lender group and the bank product providers, the lenders party thereto, SeaSpine Holdings Corporation, SeaSpine Orthopedics Corporation, SeaSpine, Inc., ISOTIS, Inc., SeaSpine Sales LLC, Theken Spine, LLC, and IsoTis Orthobiologics, Inc.
31.1*	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*†	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*†	Inline XBRL Taxonomy Extension Schema Document
101.CAL*†	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*†	Inline XBRL Definition Linkbase Document
101.LAB*†	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*†	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within Exhibit 101.INS Inline XBRL document)

(1) Incorporated by reference from the registrant's current report on Form 8-K filed on July 31, 2020.

* Filed herewith

** These certifications are being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation by reference language in such filing.

† The financial information of SeaSpine Holdings Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 filed on November 9, 2020 formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Loss, (iii) the Condensed Consolidated Balance Sheets, (iv) Parenthetical Data to the Condensed Consolidated Balance Sheets, (v) the Condensed Consolidated Statements of Cash Flows, (vi) the Condensed Consolidated Statements of Equity, and (vii) Notes to Unaudited Condensed Consolidated Financial Statements, is furnished electronically herewith.

SIGNATURES

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

SEASPINE HOLDINGS CORPORATION

Date: November 9, 2020

/s/ Keith C. Valentine
Keith C. Valentine
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2020

/s/ John J. Bostjancic
John J. Bostjancic
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

Certification of Principal Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Keith C. Valentine, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SeaSpine Holdings Corporation;

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 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 control over financial reporting.

Date: November 9, 2020

/s/ Keith C. Valentine

Keith C. Valentine

Chief Executive Officer

Exhibit 31.2

Certification of Principal Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John J. Bostjancic, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SeaSpine Holdings Corporation;

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 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 control over financial reporting.

Date: November 9, 2020

/s/ John J. Bostjancic

John J. Bostjancic

Chief Financial Officer

Exhibit 32.1

Certification of Principal Executive Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Keith C. Valentine, President and Chief Executive Officer of SeaSpine Holdings Corporation (the "Company"), hereby certify that, to my knowledge:

1 The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2020 (the "Report") fully complies with the requirement of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: November 9, 2020

/s/ Keith C. Valentine
Keith C. Valentine
Chief Executive Officer

Exhibit 32.2

Certification of Principal Financial Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, John J. Bostjancic, Senior Vice President and Chief Financial Officer of SeaSpine Holdings Corporation (the "Company"), hereby certify that, to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2020 (the "Report") fully complies with the requirement of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: November 9, 2020

/s/ John J. Bostjancic
John J. Bostjancic
Chief Financial Officer