# 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 March 31, 2022**

**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**<br>**(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)** | **47-3251758**<br>**(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 | x |
| Non-accelerated filer | o | Smaller reporting company | o |
| | | Emerging growth company | o |

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 May 5, 2022 was 36,800,199.

**SEASPINE HOLDINGS CORPORATION**
**INDEX**


| | Page Number |
|---|---|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | 4 |
| Condensed Consolidated Statements of Operations for the three months ended March 31, 2022 and 2021 (Unaudited) | 4 |
| Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2022 and 2021 (Unaudited) | 5 |
| Condensed Consolidated Balance Sheets as of March 31, 2022 and December 31, 2021 (Unaudited) | 6 |
| Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2022 and 2021 (Unaudited) | 7 |
| Condensed Consolidated Statements of Equity for the three months ended March 31, 2022 and 2021 (Unaudited) | 8 |
| Notes to Unaudited Condensed Consolidated Financial Statements | 9 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 21 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 31 |
| Item 4. Controls and Procedures | 32 |
| PART II. OTHER INFORMATION | 34 |
| Item 1. Legal Proceedings | 34 |
| Item 1A. Risk Factors | 34 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 35 |
| Item 3. Defaults Upon Senior Securities | 35 |
| Item 4. Mine Safety Disclosures | 35 |
| Item 5. Other Information | 35 |
| Item 6. Exhibits | 36 |
| SIGNATURES | 37 |

## 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 March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Total revenue, net | $ 50,693 | $ 41,954 |
| Cost of goods sold | 20,376 | 15,366 |
| Gross profit | 30,317 | 26,588 |
| Operating expenses: | | |
| Selling and marketing | 29,506 | 23,399 |
| General and administrative | 10,939 | 10,427 |
| Research and development | 5,850 | 4,506 |
| Intangible amortization | 856 | 792 |
| Total operating expenses | 47,151 | 39,124 |
| Operating loss | (16,834) | (12,536) |
| Other income (expense), net | 2 | (159) |
| Loss before income taxes | (16,832) | (12,695) |
| (Benefit) provision for income taxes | (228) | 25 |
| Net loss | $ (16,604) | $ (12,720) |
| Net loss per share, basic and diluted | $ (0.45) | $ (0.46) |
| Weighted average shares used to compute basic and diluted net loss per share | 36,754 | 27,913 |

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 March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Net loss | $ (16,604) | $ (12,720) |
| Other comprehensive loss | | |
| Foreign currency translation adjustments | (175) | (357) |
| Comprehensive loss | $ (16,779) | $ (13,077) |

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)

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 81,435 | $ 83,106 |
| Trade accounts receivable, net of allowances of $192 and $74 | 36,073 | 36,231 |
| Inventories | 76,534 | 72,299 |
| Prepaid expenses and other current assets | 3,998 | 4,328 |
| Total current assets | 198,040 | 195,964 |
| Property, plant and equipment, net | 50,395 | 46,892 |
| Right of use assets | 6,543 | 6,948 |
| Intangible assets, net | 40,213 | 42,056 |
| Goodwill | 84,595 | 84,595 |
| Other assets | 624 | 812 |
| **Total assets** | $ 380,410 | $ 377,267 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable, trade | 16,482 | 20,301 |
| Accrued compensation | 6,380 | 8,769 |
| Accrued commissions | 10,229 | 9,877 |
| Short-term debt | 25,000 | — |
| Short-term lease liability | 2,228 | 2,234 |
| Deferred revenue | 2,373 | 1,545 |
| Other accrued expenses and current liabilities | 10,259 | 10,255 |
| Total current liabilities | 72,951 | 52,981 |
| Long-term lease liability | 5,398 | 5,866 |
| Deferred tax liability, net | 3,922 | 4,308 |
| Other liabilities | 1,318 | 1,748 |
| **Total liabilities** | 83,589 | 64,903 |
| | | |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value; 15,000 authorized; no shares issued and outstanding at March 31, 2022 and December 31, 2021 | — | — |
| Common stock, $0.01 par value; 60,000 authorized; 36,789 and 36,584 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively | 368 | 366 |
| Additional paid-in capital | 585,265 | 584,031 |
| Accumulated other comprehensive income | 1,395 | 1,570 |
| Accumulated deficit | (290,207) | (273,603) |
| **Total stockholders' equity** | 296,821 | 312,364 |
| **Total liabilities and stockholders' equity** | $ 380,410 | $ 377,267 |

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)

| | Three Months Ended March 31, 2022 | Three Months Ended March 31, 2021 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Net loss | $ (16,604) | $ (12,720) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 4,202 | 2,747 |
| Instrument replacement expense | 1,018 | 730 |
| Provision for excess and obsolete inventories | 2,485 | 1,321 |
| Stock-based compensation | 2,819 | 2,546 |
| Other | (449) | (36) |
| Changes in assets and liabilities, net of the effects from acquisition: | | |
| Accounts receivable | 45 | 1,021 |
| Inventories | (5,549) | (5,411) |
| Prepaid expenses and other current assets | 329 | 1,150 |
| Other non-current assets | 166 | 228 |
| Accounts payable | (719) | 3,941 |
| Accrued commissions | 351 | 850 |
| Other accrued expenses and current liabilities | (2,666) | 683 |
| Other non-current liabilities | (421) | (8) |
| **Net cash used in operating activities** | (14,993) | (2,958) |
| **INVESTING ACTIVITIES:** | | |
| Purchases of property and equipment | (9,359) | (3,750) |
| Additions to technology assets | (700) | (350) |
| **Net cash used in investing activities** | (10,059) | (4,100) |
| **FINANCING ACTIVITIES:** | | |
| Borrowings under credit facility | 25,000 | 20,000 |
| Proceeds from exercise of stock options | 3 | 496 |
| Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units | (1,587) | (2,418) |
| Payment of contingent royalty consideration liabilities in connection with acquisition of business | (18) | (19) |
| **Net cash provided by financing activities** | 23,398 | 18,059 |
| Effect of exchange rate changes on cash and cash equivalents | (17) | (65) |
| **Net change in cash and cash equivalents** | (1,671) | 10,936 |
| **Cash and cash equivalents at beginning of period** | 83,106 | 76,813 |
| **Cash and cash equivalents at end of period** | $ 81,435 | $ 87,749 |
| **Supplemental cash flow information:** | | |
| Interest paid | $ 114 | $ 63 |
| Income taxes paid | $ — | $ 10 |
| **Non-cash investing activities:** | | |
| Purchases of property and equipment in liabilities | $ 3,506 | $ 4,556 |
| Intangible assets payments in liabilities | $ — | $ 350 |

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 Number of Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) (see Note 1) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance December 31, 2021 | 36,584 | $ 366 | $ 584,031 | $ 1,570 | $ (273,603) | $ 312,364 |
| Net loss | — | — | — | — | (16,604) | (16,604) |
| Foreign currency translation adjustment | — | — | — | (175) | — | (175) |
| Issuance of common stock- Exchangeable Shares | 50 | 1 | (1) | — | — | — |
| Restricted stock issued | 155 | 1 | — | — | — | 1 |
| Issuance of common stock - exercise of stock options | — | — | 3 | — | — | 3 |
| Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units | — | — | (1,587) | — | — | (1,587) |
| Stock-based compensation | — | — | 2,819 | — | — | 2,819 |
| Balance March 31, 2022 | 36,789 | 368 | 585,265 | 1,395 | (290,207) | 296,821 |

| | Common Stock Number of Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) (see Note 1) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance December 31, 2020 | 27,729 | $ 277 | $ 388,574 | $ 2,124 | $ (219,257) | $ 171,718 |
| Net loss | — | — | — | — | (12,720) | (12,720) |
| Foreign currency translation adjustment | — | — | — | (357) | — | (357) |
| Restricted stock issued | 175 | 2 | — | — | — | 2 |
| Issuance of common stock - exercise of stock options | 44 | — | 496 | — | — | 496 |
| Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units | — | — | (2,418) | — | — | (2,418) |
| Stock-based compensation | — | — | 2,546 | — | — | 2,546 |
| Balance March 31, 2021 | 27,948 | 279 | 389,198 | 1,767 | (231,977) | 159,267 |

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. Unless the context indicates otherwise, references to "SeaSpine" or the "Company" refer to SeaSpine Holdings Corporation and its wholly-owned subsidiaries.

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’s complete procedural solutions feature its FLASH™ Navigation, a system designed to improve accuracy of screw placement and provide a cost-effective, rapid, radiation-free solution to surgical navigation, and a comprehensive portfolio of spinal implants and orthobiologics to meet the varying combinations of products that neurosurgeons and orthopedic spine surgeons need to facilitate spinal fusion in degenerative, minimally invasive surgery (MIS), and complex spinal deformity procedures on the lumbar, thoracic and cervical spine.

### *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, 2021 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 months ended March 31, 2022 are not necessarily indicative of the results expected for the full year. The condensed consolidated balance sheet as of December 31, 2021 was derived from the audited consolidated balance sheet for the year ended December 31, 2021. 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.

### *Concentration of Risk*

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, which is held at major financial institutions, and trade receivables.

The Company’s products are sold on an uncollateralized basis and on credit terms based upon a credit risk assessment of each customer. A portion of the Company’s trade receivables to customers outside the United States includes sales to foreign stocking distributors, who then sell to government owned or supported healthcare systems. The ongoing economic conditions in certain European countries, especially Greece, Ireland, Italy, Portugal and Spain remain uncertain. Accounts receivable from customers in these countries are not a material amount of the Company’s overall receivables.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Below is a summary of certain of the Company's significant accounting policies. For a comprehensive description of the Company's accounting policies, refer to the Annual Report on Form 10-K for the year ended December 31, 2021.

### *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 goodwill, identifiable intangible and long-lived assets, fair value estimates related to business combinations, 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.

***Risk and Uncertainties***

The full extent to which the COVID-19 pandemic or the ongoing conflict in Ukraine 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, with respect to COVID-19, as a result of variants of the virus that causes COVID-19 or other information that may emerge concerning COVID-19 and the actions taken to contain or treat COVID-19, and with respect to the ongoing conflict in Ukraine, the impact thereof on the supply chain for titanium, which is used in certain of our products, as well as the broader macroeconomic impact arising from both COVID-19 and the conflict 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.

The Company has not achieved profitable operations, nor is there assurance that profitable operations will ever be achieved, and, if achieved, could be sustained on a continuing basis. The Company is subject to a number of risks similar to other medical device companies, including, but not limited to, risks related to maintaining high levels of inventory, raising additional capital, and the successful discovery, development, and commercialization of products. As a result of these and other factors and the related uncertainties, there can be no assurance of the Company’s future success.

Based on the Company’s updated operating plans, the Company believes that it has sufficient resources to fund operations through the first quarter of 2023 with its existing cash and equivalents. However, based on the Company’s recurring losses from operations and the expectation of continued operating losses, the Company will need to raise additional capital to finance its future operations. If the Company is unable to raise such additional capital, it may raise substantial doubt about the Company’s ability to continue as a going concern. In the near term, the Company plans to alleviate this risk through a three year extension and expansion of its $30 million credit facility, which is expected to close during the second quarter of 2022. Longer term, the Company expects to raise additional capital through the sale of common stock in public offerings and/or private placements, debt financings, or through other capital sources.

Although the Company has been successful in raising capital in the past, there is no assurance that it will be successful in obtaining such additional financing on terms acceptable to the Company, if at all. If the Company is unable to obtain sufficient funding on acceptable terms, it could be forced to delay, reduce or eliminate some or all of its projected inventory and capital expenditures spend, research and development programs or commercialization activities, which could materially adversely affect its business prospects or its ability to continue operations.

***Recently Adopted Accounting Standards***

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 (CECL) model. Under this model, entities will estimate credit losses over the entire contractual term of the instrument. The FASB subsequently issued other related ASUs that amend ASU No. 2016-13 to provide clarification and additional guidance. The new standard was effective for the Company beginning January 1, 2022 and primarily impacted trade accounts receivable. The amendments in this update were adopted using a modified retrospective transition method as of January 1, 2022, which had no cumulative impact to retained earnings. The adoption of this new standard had no material impact on the Company's consolidated financial statements. The Company's concentrations of credit risks are limited due to the large number of customers and their dispersion across a number of geographic areas. Substantially all of the Company's trade receivables are concentrated in the public and private hospital and healthcare industry in the U.S. and internationally or with distributors who operate in international markets. The Company's historical credit losses have not been significant due to this dispersion and the financial stability of the Company's customers. The Company considers credit losses immaterial to its business and, therefore, has not provided all the disclosures otherwise required by the standard. The Company updated its accounting policy disclosure for accounts receivable as follows:

Trade accounts receivable in the accompanying consolidated balance sheets are presented net of allowances for doubtful accounts for expected credit losses and sales returns and other credits. The Company grants credit to customers in the normal course of business, but generally does not require collateral or any other security to support its receivables.

The Company evaluates the collectability of accounts receivable based on a combination of factors. In circumstances where a specific customer is unable to meet its financial obligations to the Company, a provision to the allowances for doubtful accounts for expected credit losses is recorded to reduce the net recognized receivable to the amount that is reasonably expected to be collected. For all other customers, a provision to the allowances for doubtful accounts for expected credit losses is recorded based on factors including the length of time the receivables are past due, the current business environment, the geographic market and the Company's historical experience. Provisions to the allowances for doubtful accounts for expected credit losses are recorded to general and administrative expenses. Account balances are charged off against the allowance when it is probable that the receivable will not be recovered. The allowance for doubtful accounts for expected credit losses was $192 thousand and $74 thousand as of March 31, 2022 and December 31, 2021, respectively.

In January 2017, the FASB issued Update No. 2017-04, *Simplifying the Test for Goodwill Impairment* (ASU 2017-04). ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. ASU 2017-04 was effective for the Company beginning January 1, 2022 and was applied on a prospective basis. The adoption of ASU 2017-04 had no material impact on its consolidated financial statements.

In May 2021, the FASB issued Update No. 2021-04, *Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40) Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. This Update addresses issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options. The new standard was effective for the Company beginning January 1, 2022. The adoption of this new standard had no material impact on its consolidated financial statements.

In July 2021, the FASB issued Update No. 2021-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments.* Under this standard, lessors will classify leases with variable payments that do not depend on an index or rate as operating leases if a different classification would result in a commencement date selling loss. The new standard was effective for the Company beginning January 1, 2022 and early adoption is permitted. The adoption of this new standard had no material impact on its consolidated financial statements.

***Net Loss Per Share***

The Company follows the two-class method when computing net loss per share. Because the Company's board of directors has discretion in declaring/issuing dividends on the Company's common stock, these dividend rights meet the definition for participating securities. 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, including the Exchangeable Shares (as defined below), of 7.2 million and 4.8 million shares for the three months ended March 31, 2022 and 2021, 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 credit facility with Wells Fargo Bank, N.A. (as amended, the Credit Facility). The Credit Facility provides an asset-backed revolving line of credit of up to $30.0 million and matures on July 27, 2022. 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.

As of March 31, 2022, there was $25.0 million outstanding under the Credit Facility. There were no amounts outstanding under the credit facility at December 31, 2021. As of March 31, 2022, the effective interest rate on the amounts borrowed was 4.75%. At March 31, 2022, the Company had $1.4 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 March 31, 2022.

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.

## 4. INVENTORIES

Inventories consisted of:

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| | (In thousands) | |
| Finished goods | $ 52,480 | $ 49,405 |
| Work in process | 17,794 | 17,644 |
| Raw materials | 6,260 | 5,250 |
| | $ 76,534 | $ 72,299 |

## 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation 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 that the Company consigns to hospitals and independent sales agents to support surgeries is initially capitalized as construction in progress. The amount is then either 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:

| | March 31, 2022 | December 31, 2021 | Useful Lives |
|---|---|---|---|
| | (In thousands) | | |
| Leasehold improvements | $ 6,515 | $ 6,501 | Shorter of lease term or useful life |
| Machinery and production equipment | 10,748 | 10,408 | 3 - 10 years |
| Spinal instruments and sets | 44,231 | 45,076 | 4 - 6 years |
| Information systems and hardware | 9,306 | 8,186 | 3 - 7 years |
| Furniture and fixtures | 2,100 | 2,097 | 3 - 5 years |
| Construction in progress | 19,235 | 17,615 | |
| Total | 92,135 | 89,883 | |
| Less accumulated depreciation and amortization | (41,740) | (42,991) | |
| Property, plant and equipment, net | $ 50,395 | $ 46,892 | |

Depreciation and amortization expenses totaled $2.4 million and $1.7 million for the three months ended March 31, 2022 and 2021, respectively. The cost of purchased instruments used to replace damaged instruments in existing sets and recorded directly to instrument replacement expense totaled $1.0 million and $0.7 million for the three months ended March 31, 2022 and 2021, respectively.

## 6. 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.

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

| | March 31, 2022 | | | |
|---|---|---|---|---|
| | Weighted Average Life | Cost | Accumulated Amortization | Net |
| | (Dollars in thousands) | | | |
| Product technology | 12 years | $ 65,642 | $ (33,471) | $ 32,171 |
| Customer relationships | 12 years | 56,830 | (50,034) | $ 6,796 |
| Trademarks/brand names | 6 years | 1,600 | (497) | $ 1,103 |
| Other intangibles | 8 years | $ 160 | $ (17) | $ 143 |
| | | $ 124,232 | $ (84,018) | $ 40,213 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Weighted Average Life | Cost | Accumulated Amortization | Net |
| | (Dollars in thousands) | | | |
| Product technology | 12 years | $ 65,642 | $ (32,484) | $ 33,158 |
| Customer relationships | 12 years | 56,830 | (49,241) | 7,589 |
| Trademarks/brand names | 6 years | 1,600 | (438) | 1,162 |
| Other intangibles | 8 years | 159 | (12) | 147 |
| | | $ 124,231 | $ (82,175) | $ 42,056 |

Annual amortization expense (including amounts reported in cost of goods sold) is expected to be approximately $7.2 million in 2022, $6.6 million in 2023, $4.6 million in 2024, $3.3 million in 2025, and $3.3 million in 2026. For the three months ended March 31, 2022 and 2021, amortization expense totaled $1.8 million and $1.1 million, respectively, and included $1.0 million and $0.3 million, respectively, of amortization of product technology intangible assets that is presented within cost of goods sold.

## 7. EQUITY AND STOCK-BASED COMPENSATION

### *Common Stock*

In April 2021, the Company entered into an Underwriting Agreement with Piper Sandler & Co., Canaccord Genuity LLC, and Stifel, Nicolaus & Company, Incorporated relating to the issuance and sale of 4,500,000 shares of the Company's common stock at a price to the public of $19.50 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 675,000 shares of common stock. The underwriters exercised this option and the offering closed on April 20, 2021 with the sale of 5,175,000 shares of common stock, resulting in net proceeds to the Company of approximately $95 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. The Company used a portion of the net proceeds from the offering to repay all of its then-outstanding borrowings under the Credit Facility and to finance the cash consideration of $27.5 million for the Company's acquisition of 7D Surgical.

In May 2021, the Company issued 2,991,054 shares of the Company’s common stock and 1,298,648 Exchangeable Shares in connection with Company's acquisition of 7D Surgical.

### *Equity Award Plans*

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. In April 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 in June 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 equity awards issued by the Company's former parent company prior to the spin-off that were converted into the Company's equity awards under the Restated Plan as of the date of the spin-off and (2) 9,735,500 shares of the Company's common stock in respect of awards granted under the Restated Plan. As of March 31, 2022, 1,652,293 shares were available for issuance under the Restated Plan.

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 Restated 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 March 31, 2022, 1,273,950 shares were available for issuance under the 2020 Inducement Plan.

The 2020 Inducement Plan was 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 the plan 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 9% and 13% annually for the three months ended March 31, 2022 and 2021, respectively. 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.

No restricted stock units were granted to non-employee directors during either of the three months ended March 31, 2022 or 2021. There were 4,021 restricted stock awards granted to non-employee directors during the three months ended March 31, 2021. No restricted stock awards were granted to non-employee directors during the three months ended March 31, 2022.

During the three months ended March 31, 2022 and 2021, 676,523 and 384,585 restricted stock units were granted to employees, respectively. No restricted stock awards were granted to employees during either of the three months ended March 31, 2022 or 2021.

As of March 31, 2022, there was approximately $10.6 million of unrecognized compensation expense related to the unvested portions of restricted stock awards and restricted stock units. This expense is expected to be recognized over a weighted-average period of approximately 1.6 years.

***Stock Options***

Stock option grants to employees generally have a requisite service period of four to five 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 524,045 and 533,863 stock options granted during the three months ended March 31, 2022 and 2021, respectively. The following weighted-average assumptions were used in the calculation of fair value for options granted during the period indicated.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Expected dividend yield | —% | —% |
| Risk-free interest rate | 1.7% | 0.5% |
| Expected volatility | 52.1% | 51.5% |
| Expected term (in years) | 5.4 | 5.3 |

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 March 31, 2022, there was approximately $7.5 million of unrecognized compensation expense related to unvested stock options. This expense is expected to be recognized over a weighted-average period of approximately 1.7 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. In December 2020, the Company's board of directors approved the issuance of an additional 500,000 shares of common stock under the ESPP. The Company's stockholders approved that amendment in June 2021. 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 December 31, 2021, such that the offering periods that commenced on January 1, 2021 and July 1, 2021 were terminated, and a new two-year offering period commenced on January 1, 2022 and will end on December 31, 2023. 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 three months ended March 31, 2022 was immaterial.

There were no shares of common stock purchased under the ESPP during either of the three months ended March 31, 2022 or 2021. The Company recognized $0.2 million and $0.3 million in expense related to the ESPP for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, 427,317 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 March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Expected dividend yield | — % | — % |
| Risk-free interest rate | 0.5 % | 0.1 % |
| Expected volatility | 56.2 % | 64.3 % |
| Expected term (in years) | 1.3 | 1.2 |

## 8. LEASES

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 March 31, 2022, the weighted average remaining lease term of these operating leases was 5.1 years and the weighted average discount rate was 6.5%. For the three months ended March 31, 2022 and 2021, lease expense, which represents expense from operating leases, was $0.6 million and $0.5 million, respectively.

A summary of the Company's remaining lease liabilities at March 31, 2022 are as follows:

| | | Operating Leases (In thousands) |
|---|---|---|
| 2022 | | 2,199 |
| 2023 | | 1,686 |
| 2024 | | 1,470 |
| 2025 | | 1,499 |
| 2026 | | 1,546 |
| Thereafter | | 1,239 |
| Total undiscounted value of lease liabilities | $ | 9,639 |
| Less: present value adjustment | | (1,509) |
| Less: short-term leases not capitalized | | (504) |
| Present value of lease liabilities | | 7,626 |
| Less: current portion of lease liability | | (2,228) |
| Operating lease liability, less current portion | $ | 5,398 |

## 9. INCOME TAXES

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Reported income tax expense rate | 1.4 % | (0.2)% |

The Company recorded a an income tax benefit for the three months ended March 31, 2022 primarily related to the change in deferred tax assets and liabilities in foreign jurisdictions, offset by current activity in state and foreign operations as well as the change in U.S. indefinite lived deferred tax liabilities. The Company recorded an income tax provision for the three months ended 2021 primarily related to federal, 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 not more-likely-than-not that the full value of any resulting deferred tax assets will be realized. 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.

The acquisition of 7D Surgical was a treated as an asset purchase for U.S. tax purposes and a stock purchase for Canadian tax purposes in 2021. As such, the Company recorded deferred tax assets and liabilities on its Canadian tax attributes. The Company continues to use its deferred tax liabilities as a source of income against a portion of its deferred tax assets. A valuation allowance was recorded for the portion of the deferred tax assets that are not more-likely-than-not to be realized.

As part of the Tax Cuts and Jobs Act of 2017 (TCJA), beginning with the Company's 2022 tax year, the Company is required to capitalize research and development expenses, as defined under Internal Revenue Code section 174. For expenses that are incurred for research and development in the U.S., the amounts will be amortized over 5 years, and expenses that are incurred for research and experimentation outside the U.S. will be amortized over 15 years. This provision is not expected to have a significant impact to the consolidated financial statements.

## 10. 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 N.L.T. Spine Ltd. (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.

## 11. 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, spinal implants and enabling technologies. The Company reports revenue in two product categories: (1) orthobiologics and (2) spinal implants and enabling technologies. 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. The spinal implants and enabling technologies portfolio consists of an extensive line of products and image-guided surgical solutions to facilitate spinal fusion in degenerative, minimally invasive surgery (MIS), and complex spinal deformity 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 March 31, 2022*** | | |
|---|---|---|---|
| | **United States** | **International** | **Total** |
| Orthobiologics | $ 21,321 | $ 2,201 | $ 23,522 |
| Spinal Implants and Enabling Technologies | 24,172 | 2,999 | 27,171 |
| Total revenue, net | $ 45,493 | $ 5,200 | $ 50,693 |

| | ***Three Months Ended March 31, 2021*** | | |
|---|---|---|---|
| | **United States** | **International** | **Total** |
| Orthobiologics | $ 19,060 | $ 2,428 | $ 21,488 |
| Spinal Implants and Enabling Technologies | 18,410 | 2,056 | 20,466 |
| Total revenue, net | $ 37,470 | $ 4,484 | $ 41,954 |

**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, 2021 (the 2021 10-K) 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 collaborations, such as with restor3d, Inc. 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 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, including arising from or relating 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 ongoing conflict in Ukraine will, directly or indirectly, impact our business, results of operations and financial condition, including our sales, expenses, supply chain integrity, manufacturing capability, and research and development activities;*
- *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 the pandemic, the ongoing conflict in Ukraine and a limited number of third-party suppliers for components, raw materials and certain processing and assembly 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 or relating to the pandemic;*

- *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 the section entitled "Risk Factors" of the 2021 10-K.*

*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 offer procedural solutions that feature our FLASH™ Navigation, a system designed to improve accuracy of screw placement and provide a cost-effective, rapid, radiation-free solution to surgical navigation, and a comprehensive portfolio of spinal implants and orthobiologics to meet the varying combinations of products that neurosurgeons and orthopedic spine surgeons need to facilitate spinal fusion in degenerative, minimally invasive surgery (MIS), and complex spinal deformity procedures on the lumbar, thoracic and cervical spine. We believe our offerings are essential to meet the "complete solution" requirements of these surgeons.

We report revenue in two product categories: (i) orthobiologics and (ii) spinal implants and enabling technologies. 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 implants and enabling technologies portfolio consists of an extensive line of products and image-guided surgical solutions to facilitate spinal fusion in degenerative, minimally invasive surgery (MIS), and complex spinal deformity procedures.

Our U.S. spinal implants and orthobiologics sales organization consists primarily of regional and territory managers who oversee a broad network of independent sales agents. We pay these sales agents commissions based on the sales of our products. Our enabling technologies sales organization consists of a direct sales force that works together with our independent sales agents to generate either a capital sale or to place systems and components in an account in a capital efficient manner in return for a longer-term revenue commitment for our spinal implant systems and/or orthobiologics products. Our international sales organization consists of a sales management team that oversees a network of independent stocking distributors that purchase products directly from us and independently sell them. For the three months ended March 31, 2022 and 2021, international sales accounted for approximately 10% and 11% of our revenue, respectively. Our policy is not to sell our products through or to participate in physician-owned distributorships.

**Acquisition**

In May 2021, we acquired 7D Surgical, Inc., a pioneer in the image-guided surgery market, that developed and commercialized advanced machine-vision-based registration algorithms to improve surgical workflow and patient care, currently with applications in spine and cranial surgeries. Its flagship system, founded on its machine-vision, image-guided surgery platform, reduces radiation exposure in open spine surgery by eliminating intra-operative CT (computed tomography) and fluoroscopy for purposes of registration, both of which commonly are used for patient registration with traditional navigational systems.

**European Spinal Implant Sales and Marketing**

During the third quarter of 2021, we ceased in-person sales and marketing operations in France to reduce operating expenses and to centralize the management of our European sales and marketing operations in our headquarters located in Carlsbad, California. As a result, we closed our office located in Lyon, France, and eliminated all employment positions at that location.

During the fourth quarter of 2021, we notified our European distributors that we will discontinue all sales and marketing activities for our spinal implant portfolio in the European market effective in August 2022 due to the significantly higher upfront and recurring annual costs required to comply with European medical device regulations. We will continue to market and sell our orthobiologics and enabling technologies products in the European market.

## Components of Our Results of Operations

### *Revenue*

Our net revenue is derived primarily from the sale of orthobiologics, spinal implants and enabling technology products in 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.

Enabling technologies revenue related to capital equipment, tools and software is typically recognized upon acceptance by the customer. Revenue from training and installation is recognized upon completion of the training and installation process. Revenue from service contracts is recognized over the term of the contract.

Under certain contracts, the transfer of capital equipment occurs over time as the customer's purchase commitments on other spinal implant and orthobiologics products are met. We allocate the transaction price to the multiple performance obligations under these contracts related to the sale of the products (recognized either upon the shipment or delivery of goods), the lease of capital equipment (recognized over the contract period), and the sale of capital equipment (recognized once the purchase commitments are met).

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 implants and enabling technology products, and we assemble the spinal implants 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, 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 $7.2 million in 2022, $6.6 million in 2023, $4.6 million in 2024, $3.3 million in 2025 and $3.3 million in 2026. See "RESULTS OF OPERATIONS-Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021-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. 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 temporarily recovered to varying degrees beginning in the latter half of May 2020 as conditions improved in certain geographies, allowing patients to resume receiving their treatments. However, from late November 2020 to mid-February 2021, a significant and sustained increase in COVID-19 cases and hospitalization rates once again caused the deferral of surgical procedures in which our products otherwise could have been used. Additionally, in the third quarter of 2021, hospitalization rates in many geographies increased as a result of the spread of the Delta variant. This, along with hospital support staffing shortages in certain geographies, adversely impacted the number of elective surgical procedures and slowed the partial recovery we had been experiencing. We expect to see continued volatility in the demand for our products in 2022 and thereafter as geographies respond to local conditions. We will 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.

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.

The effect of the pandemic will not be fully reflected in our results of operations and overall financial performance until future periods. 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 Part II of this report.

## RESULTS OF OPERATIONS

| (In thousands, except percentages) | Three Months Ended March 31, 2022 | 2021 | 2022 vs. 2021 % Change |
|---|---|---|---|
| Total revenue, net | $ 50,693 | $ 41,954 | 21 % |
| Cost of goods sold | 20,376 | 15,366 | 33 % |
| Gross profit | 30,317 | 26,588 | 14 % |
| Gross margin | 59.8 % | 63.4 % | |
| Operating expenses: | | | |
| Selling and marketing | 29,506 | 23,399 | 26 % |
| General and administrative | 10,939 | 10,427 | 5 % |
| Research and development | 5,850 | 4,506 | 30 % |
| Intangible amortization | 856 | 792 | 8 % |
| Total operating expenses | 47,151 | 39,124 | 21 % |
| Operating loss | (16,834) | (12,536) | 34 % |
| Other income (expense), net | 2 | (159) | (101)% |
| Loss before income taxes | (16,832) | (12,695) | 33 % |
| (Benefit) provision for income taxes | (228) | 25 | NM |
| Net loss | $ (16,604) | $ (12,720) | 31 % |

NM: not meaningful

**Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021**

***Revenue***

Total revenue, net for the three months ended March 31, 2022, was $50.7 million, an increase of 21% compared to the same period in 2021.

| | Three Months Ended March 31, | | 2022 vs. 2021 |
|---|---|---|---|
| | 2022 | 2021 | % Change |
| | (In thousands) | | |
| Orthobiologics | **$ 23,522** | **$ 21,488** | 9 % |
| United States | 21,321 | 19,060 | 12 % |
| International | 2,201 | 2,428 | (9)% |
| | | | |
| Spinal Implants and Enabling Technologies | **$ 27,171** | **$ 20,466** | 33 % |
| United States | 24,172 | 18,410 | 31 % |
| International | 2,999 | 2,056 | 46 % |
| | | | |
| Total revenue, net | **$ 50,693** | **$ 41,954** | 21 % |

| | Three Months Ended March 31, | | 2022 vs. 2021 |
|---|---|---|---|
| | 2022 | 2021 | % Change |
| | (In thousands) | | |
| United States | $ 45,494 | $ 37,470 | 21 % |
| International | 5,199 | 4,484 | 16 % |
| Total revenue, net | **$ 50,693** | **$ 41,954** | 21 % |

Revenue from orthobiologics sales totaled $23.5 million for the three months ended March 31, 2022, an increase of $2.0 million or 9%, from the same period in 2021. Revenue from orthobiologics sales in the United States increased $2.3 million to $21.3 million for the three months ended March 31, 2022 compared to the same period in 2021. During the three months ended March 31, 2022, sales of products launched within the past five years increased to 43% of U.S. orthobiologics revenue. 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 March 31, 2022 compared to the same period in 2021.

Revenue from spinal implants and enabling technology sales was $27.2 million for the three months ended March 31, 2022, an increase of $6.7 million or 33%, from the same period in 2021. Revenue from spinal implants and enabling technology sales in the United States increased $5.8 million to $24.2 million for the three months ended March 31, 2022 compared to the same period in 2021 and included $1.8 million of capital sales from recently acquired 7D Surgical. Revenue from spinal implants and enabling technology sales internationally increased $0.9 million for the three months ended March 31, 2022 as compared to the same period in 2021 and included $0.6 million of capital sales from recently acquired 7D Surgical. The remaining revenue growth in the current year period was driven by recently launched products, predominantly those products that were alpha or fully launched in 2020 and 2021, and which have been important catalysts to our ability to take market share in the spinal implants market.

***Cost of Goods Sold and Gross Margin***

Cost of goods sold increased $5.0 million, to $20.4 million for the three months ended March 31, 2022, compared to the same period in 2021. Gross margin was 59.8% for the three months ended March 31, 2022 and 63.4% for the same period in 2021. The decrease in gross margin was due to increased technology-related intangible asset amortization, inventory purchase accounting fair market value adjustments associated with the 7D Surgical acquisition and higher excess and obsolete inventory charges primarily driven by recent commercial launches.

Cost of goods sold included $1.0 million and $0.3 million of amortization for product technology intangible assets for the three months ended March 31, 2022 and 2021, respectively.

***Selling and Marketing***

Selling and marketing expenses increased $6.1 million to $29.5 million for the three months ended March 31, 2022 compared to the same period in 2021. The increase was driven primarily by our 7D Surgical sales and marketing costs, higher distributor commissions, higher tradeshow and travel costs, as well as higher selling, customer service, and supply chain headcount and related expenses.

***General and Administrative***

General and administrative expenses increased $0.5 million to $10.9 million for the three months ended March 31, 2022, primarily due to the addition of 7D Surgical expenses, and higher travel and headcount related expenses, which were partially offset by the legal, accounting and other due diligence costs incurred in the prior year quarter related to the 7D Surgical acquisition.

***Research and Development***

Research and development expenses increased $1.3 million to $5.9 million, or 12% of revenue, for the three months ended March 31, 2022 compared to the same period in 2021 due to 7D Surgical research and development costs and higher headcount and related expenses.

***Intangible Amortization***

Intangible amortization expense, excluding the amounts reported in cost of goods sold for product technology intangible assets was $0.9 million and $0.8 million for the three months ended March 31, 2022 and 2021, respectively.

***Income Taxes***

| | Three Months Ended March 31, | |
|---|---|---|
| | 2022 | 2021 |
| | (In thousands) | |
| Loss before income taxes | $ (16,832) | $ (12,695) |
| (Benefit) provision for income taxes | (228) | 25 |
| Effective tax rate | 1.4 % | (0.2)% |

We recorded an income tax benefit for the three months ended March 31, 2022 primarily related to the change in deferred tax assets and liabilities in foreign jurisdictions, offset by current activity in state and foreign operations as well as the change in US indefinite lived deferred tax liabilities. We recorded an income tax provision for the three months ended 2021 primarily related to federal, foreign and state operations.

In addition, for any pretax losses incurred by the consolidated U.S. tax group, we recorded no corresponding tax benefit because we have concluded that it is not more-likely-than-not that the full value of any resulting deferred tax assets will be realized. 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.

The acquisition of 7D Surgical was a treated as an asset purchase for US tax purposes and a stock purchase for Canadian tax purposes in 2021. As such, the we recorded deferred tax assets and liabilities on its Canadian tax attributes. We continue to use our deferred tax liabilities as a source of income against a portion of our deferred tax assets. A valuation allowance was recorded for the portion of the deferred tax assets that are not more-likely-than-not to be realized. For the three months ended March 31, 2022, a net tax benefit of $0.5 million was recorded as a result of the 7D Surgical current year losses. This was offset by expenses recorded for indefinite lived intangibles, current foreign and state taxes and prior year foreign tax true-ups.

As part of the Tax Cuts and Jobs Act of 2017 (TCJA), beginning with our 2022 tax year, we are required to capitalize research and development expenses, as defined under Internal Revenue Code section 174. For expenses that are incurred for research and development in the U.S., the amounts will be amortized over 5 years, and expenses that are incurred for research and experimentation outside the U.S. will be amortized over 15 years. This provision is not expected to have a significant impact to the consolidated financial statements.

## Business Factors Affecting the Results of Operations

### *Special Charges*

We define special charges as expenses or non-operating losses 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 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 and financial 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 for the three and three months ended March 31, 2022 and 2021:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Special Charges: | **(In thousands)** | |
| Severance and other costs associated with European sales and marketing reorganization | $ 279 | $ — |
| Purchase accounting inventory fair market value and adjustments | 125 | — |
| Acquisition and integration-related charges for 7D Surgical | 372 | 1,276 |
| **Total Special Charges** | **$ 776** | **$ 1,276** |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2022** | **2021** |
| | **(In thousands)** | |
| Cost of goods sold | $ 125 | $ — |
| General and administrative | 651 | 1,276 |
| **Total Special Charges** | **$ 776** | **$ 1,276** |

## 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.

The full extent to which the COVID-19 pandemic or the ongoing conflict in Ukraine 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, with respect to COVID-19, including as a result of genetic variations of, or other information that may emerge concerning, COVID-19 and the actions taken to contain it or treat COVID-19, and with respect to the ongoing conflict in Ukraine, the impact thereof on the supply chain for titanium, which is used in certain of our products, as well as the broader macroeconomic impact arising from both COVID-19 and the conflict 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.

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 2021 10-K describe the significant accounting policies and estimates used in the preparation of our condensed consolidated financial statements.

***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.

## Liquidity and Capital Resources

***Overview***

As of March 31, 2022, we had cash and cash equivalents and investments totaling approximately $81.4 million, $25 million of outstanding borrowings under our credit facility, and $1.4 million of current borrowing capacity available under our credit facility. We believe that our cash and cash equivalents, and the amount currently available to us under our credit facility, will be sufficient to fund our operations and meet our contractual obligations for at least the next twelve months.

***Capital Resources***

In addition to cash from operations, our existing credit facility is our primary source of capital, however, we have raised funds in the capital markets in the past and may continue to do so from time-to-time.

*Risks and Uncertainties*

We have incurred net losses in each year since inception. Our net losses were $16.6 million and $12.7 million for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, we had an accumulated deficit of $290.2 million. We anticipate that our expenses will increase as we continue invest in the expansion of our business, primarily in sales, marketing and research and development; invest in inventory, spinal implant set builds and instrument capital expenditures; and continue to operate as a public company. Based on our updated operating plans, we believe that we have sufficient resources to fund operations through the first quarter of 2023 with our existing cash and equivalents. However, based on our recurring losses from operations and the expectation of continued operating losses, we will need to raise additional capital to finance our future operations. If we are unable to raise such additional capital, we may raise substantial doubt about our ability to continue as a going concern. In the near term, we plan to alleviate this risk through a three year extension and expansion of our $30 million credit facility, which is expected to close during the second quarter of 2022. Longer term, we expect to raise additional capital through the sale of common stock in public offerings and/or private placements, debt financings, or through other capital sources.

Although we have been successful in raising capital in the past, there is no assurance that we will be successful in obtaining such additional financing on terms acceptable to us, if at all. If we are unable to obtain sufficient funding on acceptable terms,we could be forced to delay, reduce or eliminate some or all of our projected inventory and capital expenditures spend, research and development programs or commercialization activities, which could materially adversely affect our business prospects or our ability to continue operations.

*Credit Facility*

We have a $30.0 million credit facility with Wells Fargo Bank, National Association which matures in July 2022. At March 31, 2022, we had $25.0 million outstanding borrowings under the credit facility and up to an additional $1.4 million of current borrowing capacity. 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 decrease from the $1.4 million available as of March 31, 2022. The credit facility contains various customary affirmative and negative covenants, including prohibiting us from incurring indebtedness without the lender's consent. 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 $79.9 million at March 31, 2022, and therefore that financial covenant was not applicable at that time.

*Underwritten Offerings*

In April 2021, we sold 5,175,000 shares of common stock, resulting in net proceeds of approximately $94.5 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

***Cash Flows***

| | Three Months Ended March 31, | | 2022 vs. 2021 |
|---|---|---|---|
| | 2022 | 2021 | % Change |
| | (In thousands) | | |
| **Net cash used in operating activities** | $ (14,993) | $ (2,958) | 407 % |
| **Net cash used in investing activities** | (10,059) | (4,100) | 145 % |
| **Net cash provided by financing activities** | 23,398 | 18,059 | 30 % |
| Effect of exchange rate changes on cash and cash equivalents | (17) | (65) | (74)% |
| **Net change in cash and cash equivalents** | $ (1,671) | $ 10,936 | (115)% |

*Net Cash Used in Operating Activities*

Net cash used in operating activities for the three months ended March 31, 2022 increased by $12.0 million compared to the same period in 2021 due to primarily to timing of payments to vendors.

*Net Cash Used in Investing Activities*

Net cash used in investing activities for the three months ended March 31, 2022 increased by $6.0 million compared to the same period in 2021. The increase was primarily due to a $5.6 million increase in purchases of property and equipment during the three months ended March 31, 2022 compared to the same period in 2021.

*Net Cash Provided by Financing Activities*

Net cash provided by financing activities was $23.4 million for the three months ended March 31, 2022. It was comprised primarily of $25.0 million borrowed under the credit facility, partially offset by $1.6 million of cash used 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. Net cash provided by financing activities was $18.1 million for the nine months ended March 31, 2021. It was comprised primarily of $20.0 million borrowed under the credit facility and $0.5 million of proceeds from the exercise of stock options, partially offset by $2.4 million of cash used 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.

***Off-Balance Sheet Arrangements***

There were no off-balance sheet arrangements as of March 31, 2022 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 2021 10-K.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

***Foreign Currency Risk***

Our wholly owned foreign subsidiaries are consolidated into our financial results and are subject to risks typical of an international business including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions and foreign exchange volatility. To date, we have not used international currency derivatives to hedge against our investment in our subsidiaries or their operating results, which are converted into U.S. dollars at period-end and average foreign exchange rates, respectively. However, as we continue to expand our business through acquisitions and organic growth, the sales of our products that are denominated in foreign currencies has increased, as well as the costs associated with our foreign subsidiaries which operate in currencies other than the U.S. dollar. Accordingly, our future results could be materially impacted by changes in these or other factors.

We are exposed to risk from changes in foreign currency exchange rates, particularly with respect to the Euro and the Canadian dollar. For three months ended March 31, 2022 and 2021, sales transacted in foreign currencies accounted for approximately 10% and 11%, respectively of our consolidated net sales. In addition, our exposure to fluctuations in foreign currencies arises because certain of our subsidiaries enter into purchase or sale transactions using a currency other than the subsidiaries' functional currencies. Accordingly, our future results could be materially impacted by changes in foreign exchange rates or other factors. Currently, we do not use financial instruments to manage the impact of currency fluctuations on our business through hedging transactions.

***Credit Risk***

Financial instruments, which potentially subject us to concentrations of credit risk, are primarily cash and cash equivalents, and accounts receivable.

We place our cash and cash equivalents with highly-rated financial institutions and limit the amount of credit exposure to any one entity. We believe we do not have any significant credit risk on our cash and cash equivalents.

Our concentrations of credit risks with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across a number of geographic areas and due to frequent monitoring of the creditworthiness of the customers to whom credit is granted in the normal course of business. Our products are sold on an uncollateralized basis and on credit terms based upon a credit risk assessment of each customer. A portion of our trade receivables to customers outside the United States includes sales to foreign stocking distributors, who then sell to government owned or supported healthcare systems. The ongoing economic conditions in certain European countries, especially Greece, Ireland, Italy, Portugal and Spain remain uncertain. Accounts receivable from customers in these countries are not a material amount of our overall receivables.

None of our customers accounted for 10% or more of the net sales or accounts receivable for any of the periods presented.

***Interest Rate Risk***

In the normal course of business, we are exposed to market risk from changes in interest rates that could affect our results of operations and financial condition. We manage our exposure to interest rate risks through our regular operations and financing activities.

We invest our cash and cash equivalents primarily in highly-rated corporate commercial paper and bank deposits. Currently, we do not use derivative financial instruments in our investment portfolio.

Note 3, "Debt and Interest" to the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report details our interest rates under our credit facility. As of March 31, 2022, we had $25.0 million outstanding under our credit facility. Based upon our overall interest rate exposure as of March 31, 2021, a change of 10 percent in interest rates, assuming the principal amount outstanding remains constant, would have impacted our earnings and cash flow for the three months ended March 31, 2022 by $0.1 million. This analysis does not consider the effect of the change in the level of overall economic activity that could exist in such an environment.

## 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. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, cash flows, or overall trends in results of operations, in part because of the insurance policies we maintain that cover certain of these claims, 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. We are not currently subject to any pending material litigation, other than ordinary routine litigation incidental to our business, as described above.

## ITEM 1A. RISK FACTORS

See "Item 1A. Risk Factors" in Part I of the 2021 10-K for a detailed discussion of the risks we face. The risk factors described in the 2021 10-K have not materially changed except for the addition of the following risk factor.

***The ongoing conflict between Russia and Ukraine, and the global response to it, may adversely affect our business and results of operations.***

The ongoing conflict between Russia and Ukraine has resulted in the implementation of sanctions by the United States and other governments against Russia and has caused significant volatility and disruptions to the global markets. It is not possible to predict the short- or long-term implications of this conflict, which could include but are not limited to further sanctions, uncertainty about economic and political stability, increases in inflation rate and energy prices, supply chain challenges and adverse effects on currency exchange rates and financial markets. In addition, the United States government reported that United States sanctions against Russia in response to the conflict could lead to an increased threat of cyberattacks against United States companies. These increased threats could pose risks to the security of our information technology systems and networks, as well as the confidentiality, availability and integrity of our data. A significant escalation or further expansion of the conflict's current scope or related disruptions to the global markets could have a material adverse effect on our results of operations.

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

### Recent Sales of Unregistered Securities

During the first quarter of 2022, we did not issue any securities that were not registered under the Securities Act of 1933, as amended (the Securities Act).

### 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 |
|---|---|---|---|---|
| January 1 - January 31 | 119,754 | $ 12.84 | — | — |
| February 1 - February 28 | 2,741 | $ 11.79 | — | — |
| March 1 - March 31 | 2,285 | $ 12.94 | — | — |

(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 |
|---|---|
| 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) |

* 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 March 31, 2022 filed on May 9, 2022 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.

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| | | **SEASPINE HOLDINGS CORPORATION** |
| Date: | May 9, 2022 | /s/ Keith C. Valentine |
| | | Keith C. Valentine<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | May 9, 2022 | /s/ John J. Bostjancic |
| | | John J. Bostjancic<br>Chief Operating and Financial Officer<br>(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: May 9, 2022

/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: May 9, 2022

/s/ John J. Bostjancic

John J. Bostjancic

*Chief Operating and 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 March 31, 2022 (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.

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| Date: | May 9, 2022 | /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 Operating and 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 March 31, 2022 (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: May 9, 2022

/s/ John J. Bostjancic

John J. Bostjancic

*Chief Operating and Financial Officer*