SeaSpine Holdings Corp
Form 10-Q
May 03, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
COMMISSION FILE NO. 001-36905

SeaSpine Holdings Corporation
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	47-3251758
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
5770 Armada Drive, Carlsbad, California	92008
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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 (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company x

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 o   No ý

The number of shares of the registrant’s common stock, $0.01 par value, outstanding as of April 30, 2018 was 14,536,314.

SEASPINE HOLDINGS CORPORATION
INDEX

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,	
	2018	2017
Total revenue, net	$33,175	$31,894
Cost of goods sold	12,179	13,172
Gross profit	20,996	18,722
Operating expenses:		
Selling, general and administrative	24,467	23,970
Research and development	2,789	3,050
Intangible amortization	792	792
Total operating expenses	28,048	27,812
Operating loss	(7,052)	(9,090)
Other income (expense), net	20	(13)
Loss before income taxes	(7,032)	(9,103)
Provision for income taxes	73	—
Net loss	$(7,105)	$(9,103)
Net loss per share, basic and diluted	$(0.50)	$(0.79)
Weighted average shares used to compute basic and diluted net loss per share	14,085	11,586

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,	
	2018	2017
Net loss	$(7,105)	$(9,103)
Other comprehensive income		
Foreign currency translation adjustments	240	81
Comprehensive loss	$(6,865)	$(9,022)

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, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$12,470	$ 10,788
Trade accounts receivable, net of allowances of $492 and $466	20,639	21,872
Inventories	43,285	41,721
Prepaid expenses and other current assets	1,779	2,037
Total current assets	78,173	76,418
Property, plant and equipment, net	21,674	22,063
Intangible assets, net	33,583	35,207
Other assets	720	786
Total assets	$134,150	$ 134,474
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	7,700	7,385
Accrued compensation	4,145	5,833
Accrued commissions	4,514	5,793
Contingent consideration liabilities	897	207
Other accrued expenses and current liabilities	4,189	3,939
Total current liabilities	21,445	23,157
Contingent consideration liabilities	3,573	4,228
Other liabilities	1,507	1,436
Total liabilities	26,525	28,821
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 15,000 authorized; no shares issued and outstanding at March 31, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value; 60,000 authorized; 14,535 and 13,508 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	146	135
Additional paid-in capital	215,670	206,844
Accumulated other comprehensive income	2,190	1,950
Accumulated deficit	(110,381)	(103,276)
Total stockholders' equity	107,625	105,653
Total liabilities and stockholders' equity	$134,150	$ 134,474

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

5

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

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES:		
Net loss	$(7,105)	$(9,103)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,643	2,715
Instrument replacement expense	345	494
Provision for excess and obsolete inventories	663	1,091
Amortization of debt issuance costs	35	35
Deferred income tax provision	44	18
Stock-based compensation	835	1,226
Loss from change in fair value of contingent consideration liabilities	74	185
Changes in assets and liabilities:		
Accounts receivable	1,255	1,623
Inventories	(1,928)	1,651
Prepaid expenses and other current assets	260	(491)
Other non-current assets	—	(20)
Accounts payable	754	(870)
Accrued commissions	(1,278)	435
Other accrued expenses and current liabilities	(1,417)	599
Other non-current liabilities	174	60
Net cash used in operating activities	(4,646)	(352)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,691)	(902)
Additions to technology assets	—	(200)
Net cash used in investing activities	(1,691)	(1,102)
FINANCING ACTIVITIES:		
Repayments of short-term debt	—	(378)
Proceeds from issuance of common stock, net of offering costs- ATM transactions	8,514	—
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	(512)	(45)
Payment of contingent consideration liabilities in connection with acquisition of business	(39)	—
Net cash provided by (used in) financing activities	7,963	(423)
Effect of exchange rate changes on cash and cash equivalents	56	37
Net change in cash and cash equivalents	1,682	(1,840)
Cash and cash equivalents at beginning of period	10,788	14,566
Cash and cash equivalents at end of period	$12,470	$12,726
Non-cash investing activities:		
Property and equipment in liabilities	$459	$1,032
Settlement of contingent closing consideration liabilities in connection with acquisition of business	$—	$2,548

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

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

	Common Stock		Additional	Accumulated Other		Total
	Number of Shares	Amount	Paid-In Capital	Comprehensive Income	Accumulated Deficit	Stockholders' Equity
Balance December 31, 2017	13,508	$ 135	$ 206,844	$ 1,950	$ (103,276)	$ 105,653
Net loss	—	—	—	—	(7,105)	(7,105)
Foreign currency translation adjustment	—	—	—	240	—	240
Issuance of common stock upon vesting of restricted stock units	147	2	(2)	—	—	—
Issuance of common stock, net of offering costs- ATM transactions	882	9	8,505	—	—	8,514
Repurchases of common stock for income tax withheld upon vesting of restricted stock awards and restricted stock units	(2)	—	(512)	—	—	(512)
Stock-based compensation	—	—	835	—	—	835
Balance March 31, 2018	14,535	$ 146	$ 215,670	$ 2,190	$ (110,381)	$ 107,625

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

SEASPINE HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND BASIS OF PRESENTATION

Business

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

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 in conjunction with the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2017 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, 2018 are not necessarily indicative of the results expected for the full year. The condensed consolidated balance sheet as of December 31, 2017 was derived from the audited consolidated financial statements for the year ended December 31, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Recent Accounting Standards Not Yet Adopted

The Company qualifies as an “emerging growth company” (EGC) pursuant to the provisions of the Jumpstart Our Business Startups (JOBS) Act and elected to take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, which permits EGCs to defer compliance with new or revised accounting standards (the EGC extension) until non-issuers are required to comply with such standards. Accordingly, so long as the Company continues to qualify as an EGC, the Company will not have to adopt or comply with new or revised accounting standards until non-issuers are required to adopt or comply with such standards.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU or Update) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard provides a five-step approach to be applied to all contracts with customers. The new standard also requires expanded disclosure about revenue recognition. The new standard as amended by ASU 2015-14, ASU 2016-10 and ASU 2016-12, will be effective for the Company beginning on January 1, 2019. The Company performed a preliminary assessment of the impact of this new standard on its consolidated financial statements. In assessing the impact, the Company has outlined all revenue streams, and has considered the five steps outlined in the standard for product sales, from which substantially all the Company's revenue is generated. The Company plans to adopt the new standard using the modified retrospective method. The Company will continue to evaluate the future impact of the new standard throughout 2018.

In February 2016, the FASB issued Update No. 2016-02, Leases (Topic 842). The new standard requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than twelve months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new standard must be adopted using the modified retrospective approach. The standard will be effective for the Company beginning on January 1, 2020 with early adoption permitted. The Company does not plan to early adopt and expects to apply the transition practical expedients allowed by the standard. Note 10 to the Condensed Consolidated Financial Statements provides details on the Company’s current lease arrangements. While the Company continues to evaluate the impact of this new standard on its consolidated financial statements, the Company currently expects the primary impact will be to record right-of-use assets and lease liabilities for existing operating leases in the consolidated balance sheets. The Company does not currently expect the adoption of this new standard to have a material impact on its consolidated results of operations or cash flows.

In August 2016, the FASB issued Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash
Receipts and Cash Payments. This new standard addresses eight specific cash flow issues related to cash receipts and cash payments with the objective of reducing the existing diversity of presentation and classification in the statement of cash flows. The new standard will be effective for the Company beginning on January 1, 2019. Early adoption is permitted and should be applied using a retrospective transition method to each period presented. The Company is in the process of evaluating the impact of this standard on its consolidated financial statements.

Recently Adopted Accounting Standards

In May 2017, the FASB issued Update No. 2017-09, Compensation- Stock Compensation (Topic 718): Scope of Modification Accounting. The new standard provides guidance regarding which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The new standard was effective for the Company beginning on January 1, 2018. Adoption of this new guidance had no impact on the Company’s consolidated financial statements.

Net Loss Per Share

Basic and diluted net loss per share was calculated using the weighted-average number of shares of common stock outstanding during the period. The weighted average number of shares used to compute diluted net loss per share excludes any assumed exercise of stock options, any assumed issuance of common stock under restricted stock awards and units, and any assumed issuances under the Company's 2015 Employee Stock Purchase Plan, as the effect, in each case, would be antidilutive. Common stock equivalents of 3.6 million and 3.3 million shares for the three months ended March 31, 2018, and 2017, respectively, were excluded from the calculation because of their antidilutive effect.

3. TRANSACTIONS WITH INTEGRA

Prior to the spin-off, and pursuant to certain supply agreements subsequent to the spin-off, SeaSpine purchased a portion of raw materials and finished goods from Integra for SeaSpine's Mozaik family of products, and SeaSpine contract manufactured certain finished goods for Integra. The Company's purchases of raw materials and Mozaik product finished goods from Integra totaled $0.3 million for the three months ended March 31, 2018, and there were no such purchases for the same period in 2017. The Company's sale of finished goods to Integra under its contract manufacturing arrangement for the three months ended March 31, 2018 and 2017 totaled $0.1 million and $0.2 million, respectively.

SEASPINE HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. DEBT AND INTEREST

Credit Agreement

In December 2015, the Company entered into a three-year credit facility with Wells Fargo Bank, National Association, which was subsequently amended in October 2016 (as amended, the Credit Facility). The Credit Facility provides an asset-backed revolving line of credit of up to $30.0 million in borrowing capacity with a maturity date of December 24, 2018, which maturity date is subject to a one-time, one-year extension at the Company's election. In connection with 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.

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 terms of 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 will also pay an unused line fee in an amount equal to 0.375% per annum of the amount unused under the Credit Facility. The unused line fee is due and payable on the first day of each month.

During 2017, the Company paid off the entire amount borrowed under the Credit Facility plus accrued interest, totaling $4.1 million. There were no amounts outstanding under the Credit Facility at March 31, 2018 and December 31, 2017. At March 31, 2018, the Company had $19.7 million of current borrowing capacity under the Credit Facility. Debt issuance costs and legal fees related to the Credit Facility totaling $0.4 million were recorded as a deferred asset and are being amortized ratably over the term of the arrangement.

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, 2018.

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.

5. INVENTORIES

Inventories consisted of the following:

	March 31, 2018	December 31, 2017
	(In thousands)	

Finished goods	$30,601	$ 31,008
Work in process	7,759	6,909
Raw materials	4,925	3,804
	$43,285	$ 41,721

6. 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 Accounting Standards Codification (ASC) 350-40, Internal-Use Software.

SEASPINE HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

	March 31, 2018	December 31, 2017	Useful Lives
	(In thousands)		
Leasehold improvement	$5,510	$ 5,312	Lease Term
Machinery and production equipment	7,154	7,030	3-10 years
Spinal instruments and sets	21,136	20,340	5 years
Information systems and hardware	7,428	7,375	3-7 years
Furniture and fixtures	1,001	991	3-5 years
Construction in progress	7,474	8,136	
Total	49,703	49,184	
Less accumulated depreciation and amortization	(28,029)	(27,121)	
Property, plant and equipment, net	$21,674	$ 22,063	

Depreciation expenses totaled $1.0 million and $1.0 million for the three months ended March 31, 2018 and 2017, respectively. The cost of purchased instruments used to replace damaged instruments in existing sets and recorded directly to the instrument replacement expense totaled $0.3 million and $0.5 million for the three months ended March 31, 2018 and 2017, respectively.

7. IDENTIFIABLE INTANGIBLE ASSETS

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

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

	March 31, 2018			
	Weighted Average Life	Cost	Accumulated Amortization	Net
	(Dollars in thousands)			
Product technology	12 years	$40,769	$ (26,658)	$14,111
Customer relationships	12 years	56,830	(37,358)	19,472
Trademarks/brand names	—	300	(300)	—
		$97,899	$ (64,316)	$33,583

	December 31, 2017			
	Weighted Average Life	Cost	Accumulated Amortization	Net
	(Dollars in thousands)			
Product technology	12 years	$40,769	$ (25,827)	$14,942
Customer relationships	12 years	56,830	(36,565)	20,265
Trademarks/brand names	—	300	(300)	—

$97,899	$ (62,692)	$35,207

Annual amortization expense (including amounts reported in cost of goods sold) is expected to be approximately $6.5 million in 2018, $5.8 million in 2019, $4.9 million in 2020, $4.9 million in 2021 and $4.8 million in 2022. Amortization expense totaled $1.6 million and $1.7 million for the three months ended March 31, 2018 and 2017, respectively, and included $0.8

SEASPINE HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

million and $0.9 million, respectively, of amortization of product technology intangible assets that is presented within cost of goods sold.

8. FAIR VALUE MEASUREMENTS

The Company is obligated to pay up to a maximum of $5.0 million in milestone payments in connection with the August 2016 asset purchase transaction with N.L.T Spine Ltd. (NLT) and NLT Spine, Inc., a wholly owned subsidiary of NLT, payable at the Company's election in cash or in shares of its common stock. Such milestone payments are contingent on the Company's achievement of four independent events related to the commercialization of the product technologies the Company acquired in the transaction. Additionally, the Company is required to pay royalty payments, in cash, to NLT equal to declining (over time) percentages of the Company’s future net sales of certain of the acquired product technologies not to exceed $43.0 million in the aggregate. The Company has the option to terminate any future obligation to make royalty payments by making a one-time cash payment to NLT of $18.0 million.

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

	Total	Quoted Price in Active Market (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2018:				
Contingent consideration liabilities- current	$897	$ —	$ —	$ 897
Contingent consideration liabilities- non-current	3,573	—	—	3,573
Total contingent consideration	$4,470	$ —	$ —	$ 4,470
December 31, 2017:				
Contingent consideration liabilities- current	$207	$ —	$ —	$207
Contingent consideration liabilities- non-current	4,228	—	—	4,228
Total contingent consideration	$4,435	$ —	$ —	$4,435

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

The following table sets forth the changes in the estimated fair value of the Company’s liabilities measured on a recurring basis using significant unobservable inputs (Level 3). The loss from change in fair value of contingent milestone and royalty payments results from updated estimated timing of payments, probability of success rates, the passage of time, updated discount rates matched to the estimated timing of payments, actual net sales of certain products for the three months ended March 31, 2018, and estimated net sales for future royalty payment periods.

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

Three Months Ended March 31, 2018:	(in thousands)
Balance as of January 1, 2018	$ 4,435
Contingent consideration liabilities settled	(39)
Loss from change in fair value of contingent considerations recorded in selling, general and administrative expenses	74
Fair value at March 31, 2018	$ 4,470

12

9. EQUITY AND STOCK-BASED COMPENSATION

Common Stock

On January 31, 2017, the Company issued 350,000 shares of common stock to NLT as the settlement of contingent closing consideration pursuant to the terms of the asset purchase agreement entered into with NLT in August 2016. The total fair value of such shares was $2.5 million at issuance.

In August 2016, the Company entered into an equity distribution agreement (Distribution Agreement) with Piper Jaffray & Co. (Piper Jaffray), pursuant to which the Company may offer and sell shares of its common stock in “at the market” (ATM) offerings (as defined in Rule 415 of the Securities Act of 1933, as amended) having an aggregate offering price up to $25.0 million in gross proceeds from time to time through Piper Jaffray acting as sales agent. The shares offered and sold under the Distribution Agreement are covered by a registration statement on Form S-3 that was declared effective on August 24, 2016. Under the Distribution Agreement, the Company sold 882,332 shares of common stock at an average price per share of $10.00 and received net proceeds of approximately $8.5 million (net of $0.3 million of offering costs) during the three months ended March 31, 2018. The Company intends to continue using the net proceeds for general corporate purposes, including sales and marketing expenditures aimed at growing its business, research and development expenditures focused on product development, and investments in inventory and spinal instruments and sets. The Company has consumed the $25.0 million in capacity under the Distribution Agreement as of March 31, 2018.

Equity Award Plans

As of June 30, 2015, Integra had stock options, restricted stock awards, performance stock awards, contract stock awards and restricted stock units outstanding under three plans, the 2000 Equity Incentive Plan, the 2001 Equity Incentive Plan, and the 2003 Equity Incentive Plan. In connection with the spin-off, Integra equity awards granted to individuals who became employees of SeaSpine were converted to equity awards denominated in SeaSpine common stock. In general, each post-conversion award is subject to the same terms and conditions as were applicable to the pre-conversion award.
Under the 2015 Incentive Award Plan (2015 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 Company may issue up to 3,509,500 shares of its common stock in respect of awards granted under the 2015 Plan. On February 1, 2018, the Company's board of directors approved an amendment of the 2015 Plan, pursuant to which the share reserve was increased by 350,000 shares over the then-existing share reserve under the 2015 Plan, and on March 22, 2018, the Company's board of directors approved a further amendment and restatement of the 2015 Plan, pursuant to which (among other things) the share reserve was increased by an additional 2,376,000 shares, in each case subject to stockholder approval (the amended and restated 2015 Plan, incorporating all of these amendments, is referred to as the Restated Plan). The Company is submitting the Restated Plan to its stockholders for approval at its annual meeting of stockholders scheduled to be held on May 30, 2018. If the Company's stockholders do not approve the Restated Plan by February 1, 2019 (in which case the amendments that the Company's board of directors approved on February 1, 2018 and March 22, 2018 would cease to be effective), as of March 31, 2018, a total of 319,003 shares would remain available for issuance under the 2015 Plan.

In 2016, the Company established the 2016 Employment Inducement Incentive Award Plan (the 2016 Plan). The plan is a broad-based incentive plan which allows for the issuance of stock-based awards, including non-qualified stock options, restricted stock awards, performance awards, restricted stock unit awards and stock appreciation rights, to any prospective officer or other employee who has not previously been an employee or director of the Company or an affiliate or who is commencing employment with the Company or an affiliate following a bona-fide period of non-employment by the Company or an affiliate. An aggregate of 1,000,000 shares are reserved for issuance under the 2016 Plan. If the Restated Plan is approved by the Company's stockholders, the Company's board of directors will not grant any awards under the 2016 Plan. As a result, the only shares the Company would have available for issuance of equity awards (other than pursuant to the Company's employee stock purchase plan) would be the shares reserved for issuance under the Restated Plan. The Company has not awarded any shares under the 2016 Plan as of March 31, 2018.

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 homogenous group of shareowners. For awards and options granted to non-executive employees, the forfeiture rate is estimated

SEASPINE HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

to be 15% annually for the three months ended March 31, 2018 and 12% annually for the three months ended March 31, 2017. 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

The Company expenses the fair value of restricted stock awards and of restricted stock units on an accelerated basis over the vesting period or requisite service period, whichever is shorter.

There were zero and 3,982 shares of restricted stock awards granted to non-employee directors during the three months ended March 31, 2018 and 2017, respectively. There were 465,381 and 730,802 shares of restricted stock units granted to employees during the