

Sientra, Inc.
Form 10-Q
November 06, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number: 001-36709

SIENTRA, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware 20-5551000
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

420 South Fairview Avenue, Suite 200 93117

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Santa Barbara, California (Zip Code)

(Address of Principal Executive Offices)

(805) 562-3500

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically 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 No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company Emerging growth company

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

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

As of November 1, 2018, the number of outstanding shares of the registrant's common stock, par value \$0.01 per share, was 28,599,319.

SIENTRA, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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“Sientra”, “Sientra Platinum20”, “Sientra Full Circle”, “OPUS”, “Allox”, “Allox2”, “BIOCORNEUM”, “Dermaspan”, “Softsp”, “Silishield”, “miraDry”, “Miramar Labs”, “miraDry and Design”, “miraDry Fresh”, “bioTip”, “The Sweat Stops Here”, “Drop”, “miraWave”, “miraSmooth”, “miraFresh”, “freshRewards”, “freshNet”, “freshEquity”, and “ML Stylized mark” are trademarks of our company. Our logo and our other trade names, trademarks and service marks appearing in this document are our property. Other trade names, trademarks and service marks appearing in this document are the property of their respective owners. Solely for convenience, our trademarks and trade names referred to in the document, appear without the TM or the (R) symbol, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the rights of the applicable licensor to these trademarks and trade names.

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIENTRA, INC.

Condensed Consolidated Balance Sheets

(In thousands, except per share and share amounts)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 103,008	\$ 26,588
Accounts receivable, net of allowances of \$1,384 and \$4,816 at September 30, 2018 and December 31, 2017, respectively	18,956	6,569
Inventories, net	22,909	20,896
Prepaid expenses and other current assets	3,482	1,512
Total current assets	148,355	55,565
Property and equipment, net	2,440	4,763
Goodwill	12,507	12,507
Other intangible assets, net	17,069	18,803
Other assets	709	575
Total assets	\$ 181,080	\$ 92,213
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 3,356	\$ 24,639
Accounts payable	11,510	5,811
Accrued and other current liabilities	25,218	13,474
Legal settlement payable	410	1,000
Customer deposits	7,706	5,423
Sales return liability	5,335	—
Total current liabilities	53,535	50,347
Long-term debt	31,361	—
Deferred and contingent consideration	6,330	12,597
Warranty reserve and other long-term liabilities	1,877	1,646
Total liabilities	93,103	64,590
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, \$0.01 par value – Authorized 10,000,000 shares; none issued or outstanding	—	—
	286	194

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Common stock, \$0.01 par value — Authorized 200,000,000 shares; issued 28,650,944 and 19,474,702 and outstanding 28,578,217 and 19,401,975 shares at September 30, 2018 and December 31, 2017 respectively		
Additional paid-in capital	425,417	307,159
Treasury stock, at cost (72,727 shares at September 30, 2018 and December 31, 2017)	(260)	(260)
Accumulated deficit	(337,466)	(279,470)
Total stockholders' equity	87,977	27,623
Total liabilities and stockholders' equity	\$ 181,080	\$ 92,213

See accompanying notes to condensed consolidated financial statements.

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SIENTRA, INC.

Condensed Consolidated Statements of Operations

(In thousands, except per share and share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 16,875	\$ 9,819	\$ 49,104	\$ 25,477
Cost of goods sold	6,398	3,484	19,154	8,427
Gross profit	10,477	6,335	29,950	17,050
Operating expenses:				
Sales and marketing	15,254	7,981	45,990	21,100
Research and development	2,881	2,911	7,930	7,677
General and administrative	11,904	9,298	31,419	23,753
Legal settlement	—	—	—	10,000
Total operating expenses	30,039	20,190	85,339	62,530
Loss from operations	(19,562)	(13,855)	(55,389)	(45,480)
Other income (expense), net:				
Interest income	133	54	214	112
Interest expense	(953)	(409)	(2,474)	(603)
Other income (expense), net	(163)	(155)	(347)	(151)
Total other income (expense), net	(983)	(510)	(2,607)	(642)
Loss before income taxes	(20,545)	(14,365)	(57,996)	(46,122)
Income tax expense	—	16	—	70
Net loss	\$ (20,545)	\$ (14,381)	\$ (57,996)	\$ (46,192)
Basic and diluted net loss per share attributable to				
common stockholders	\$ (0.72)	\$ (0.74)	\$ (2.39)	\$ (2.42)
Weighted average outstanding common shares used				
for net loss per share attributable to common				
stockholders:				
Basic and diluted	28,462,975	19,328,244	24,312,300	19,079,788

See accompanying notes to condensed consolidated financial statements.

SIENTRA, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(57,996)	\$(46,192)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,500	2,037
Provision for doubtful accounts	996	84
Provision for warranties	2	133
Provision for inventory	708	468
Amortization of acquired inventory step-up	106	802
Change in fair value of warrants	333	151
Change in fair value of deferred consideration	18	(10)
Change in fair value of contingent consideration	2,178	768
Change in deferred revenue	275	—
Non-cash portion of debt extinguishment loss	—	16
Amortization of debt discount and issuance costs	132	97
Non-cash interest expense	—	1
Stock-based compensation expense	10,077	4,777
Loss on disposal of property and equipment	—	12
Deferred income taxes	—	70
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(9,476)	411
Inventories	(2,827)	1,208
Prepaid expenses, other current assets and other assets	(2,168)	(2,083)
Insurance recovery receivable	33	9,300
Accounts payable	6,780	(478)
Accrued and other liabilities	3,789	3,613
Legal settlement payable	(590)	(9,900)
Customer deposits	2,283	(987)
Sales return liability	1,429	—
Net cash used in operating activities	(41,418)	(35,702)
Cash flows from investing activities:		
Purchase of property and equipment	(414)	(1,173)
Business acquisitions, net of cash acquired	—	(18,455)
Net cash used in investing activities	(414)	(19,628)
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,149	1,327

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Proceeds from issuance of common stock under ESPP	993	647
Tax payments related to shares withheld for vested restricted stock units (RSUs)	(1,419)	(569)
Net proceeds from issuance of common stock	107,551	—
Gross borrowings under the Term Loan	10,000	25,000
Gross borrowings under the Revolving Loan	12,109	5,000
Repayment of the Revolving Loan	(12,109)	(5,000)
Deferred financing costs	(22)	(646)
Net cash provided by financing activities	118,252	25,759
Net increase (decrease) in cash and cash equivalents	76,420	(29,571)

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Cash and cash equivalents at:		
Beginning of period	26,588	67,212
End of period	\$103,008	\$37,641
Supplemental disclosure of cash flow information:		
Interest paid	\$2,526	\$305
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment in accounts payable and accrued liabilities	\$1,900	\$700
Acquisition of business, deferred and contingent consideration obligations at fair value	—	10,192
Non-cash deferred consideration settlement	1,000	—
Non-cash settlement of assets held for sale in accounts payable	2,674	—
Forgiveness of SVB Loan commitment fee	—	750

See accompanying notes to condensed consolidated financial statements.

SIENTRA, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Formation and Business of the Company

a. Formation

Sientra, Inc. (“Sientra”, the “Company,” “we,” “our” or “us”), was incorporated in the State of Delaware on August 29, 2003 under the name Juliet Medical, Inc. and subsequently changed its name to Sientra, Inc. in April 2007. The Company acquired substantially all the assets of Silimed, Inc. on April 4, 2007. The purpose of the acquisition was to acquire the rights to the silicone breast implant clinical trials, related product specifications and pre-market approval, or PMA, assets. Following this acquisition, the Company focused on completing the clinical trials to gain FDA approval to offer its silicone gel breast implants in the United States.

In March 2012, the Company announced it had received approval from the FDA for its portfolio of silicone gel breast implants, and in the second quarter of 2012 the Company began commercialization efforts to sell its products in the United States. The Company, based in Santa Barbara, California, is a medical aesthetics company that focuses on serving board-certified plastic surgeons and offers a portfolio of silicone shaped and round breast implants, scar management, tissue expanders, and body contouring products.

In November 2014, the Company completed an initial public offering, or IPO, and its common stock is listed on the Nasdaq Stock Exchange under the symbol “SIEN.”

b. Acquisition of miraDry

On June 11, 2017, Sientra entered into an Agreement and Plan of Merger, or the Merger Agreement, with miraDry, (formerly Miramar Labs), pursuant to which Sientra commenced a tender offer to purchase all of the outstanding shares of miraDry’s common stock for (i) \$0.3149 per share, plus (ii) the contractual right to receive one or more contingent payments upon the achievement of certain future sales milestones. The total merger consideration was \$18.7 million in upfront cash and the contractual rights represent potential contingent payments of up to \$14 million. The transaction, which closed on July 25, 2017, added the miraDry System to Sientra’s aesthetics portfolio.

c. Regulatory Review of Vesta Manufacturing

The Company has engaged Vesta Intermediate Funding, Inc., or Vesta, a Lubrizol Lifesciences company, for the manufacture and supply of the Company’s breast implants. On March 14, 2017, the Company announced it had submitted a site-change pre-market approval, or PMA supplement, to the FDA for the manufacture of the Company’s PMA-approved breast implants at the Vesta manufacturing facility. On January 30, 2018, the Company announced the FDA has granted approval of the site-change pre-market approval, or PMA, supplement for the Company’s contract manufacturer, Vesta, to manufacture its silicone gel breast implants. In support of the move to the Vesta manufacturing facility, the Company also implemented new manufacturing process improvements which, in consultation with the FDA, required three (3) additional PMA submissions. In addition to approving the manufacturing site-change supplement, the FDA has approved our three (3) process enhancement submissions on January 10, 2018, January 19, 2018 and April 17, 2018.

d. Follow-On Offering

On May 7, 2018, the Company completed an underwritten follow-on public offering of 7,407,408 shares of its common stock at \$13.50 per share, as well as 1,111,111 additional shares of its common stock pursuant to the full exercise of the over-allotment option granted to the underwriters. Net proceeds to the Company were approximately \$107.6 million after deducting underwriting discounts and commissions of \$6.9 million and offering expenses of approximately \$0.5 million.

2. Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and the rules and regulations of the U.S. Securities and Exchange Commission, or SEC. Accordingly, they do not include certain footnotes and financial presentations normally required under accounting principles generally accepted in the United States of America for complete financial reporting. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the opinion of management, considered necessary to provide a fair presentation for the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 13, 2018 and Form 10-K/A filed on April 30, 2018, or the Annual Report. The results for the three and nine months ended September 30, 2018 are not necessarily indicative of results to be expected for the year ending December 31, 2018, any other interim periods, or any future year or period.

b. Liquidity

Since the Company's inception, it has incurred significant net operating losses and the Company anticipates that losses will continue in the near term. The Company expects its operating expenses will continue to grow as they expand operations. The Company will need to generate significant net sales to achieve profitability. To date, the Company has funded operations primarily with proceeds from the sales of preferred stock, borrowings under term loans, sales of products since 2012, and the proceeds from the sale of common stock in public offerings.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. As of September 30, 2018, the Company had cash and cash equivalents of \$103.0 million. Since inception, the Company has incurred recurring losses from operations and cash outflows from operating activities. The continuation of the Company as a going concern is dependent upon many factors including liquidity and the ability to raise capital. The Company received FDA approval of their PMA supplement on April 17, 2018 and was then able to access a \$10.0 million term loan pursuant to an amendment to the credit agreement with MidCap Financial Trust, or MidCap. In addition, in February 2018, the Company entered into an At-The-Market Equity Offering Sales Agreement with Stifel, Nicolaus & Company, Incorporated, or Stifel, as sales agent pursuant to which the Company may sell, from time to time, through Stifel, shares of our common stock having an aggregate gross offering price of up to \$50.0 million. As of September 30, 2018, the Company has not sold any common stock pursuant to the sales agreement. Further, on May 7, 2018, the Company completed a public offering of its common stock, raising approximately \$107.6 million in net proceeds after deducting underwriting discounts and commissions and other offering expenses.

The Company believes that its cash and cash equivalents will be sufficient to fund its operations for at least the next 12 months. To fund ongoing operating and capital needs, the Company may need to raise additional capital in the future through the sale of equity securities and incremental debt financing.

c. Use of Estimates

The preparation of the condensed consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported

amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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d. Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue when the Company transfers control of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those goods or services. See Note 3 - Revenue for further discussion.

There have been no other changes to the accounting policies during the three and nine months ended September 30, 2018, as compared to the significant accounting policies described in the “Notes to Financial Statements” in the Annual Report.

e. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718), to simplify the accounting for non-employee share-based payment transactions by expanding the scope of ASC Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. Under the new standard, most of the guidance on stock compensation payments to non-employees would be aligned with the requirements for share-based payments granted to employees. ASU 2018-07 supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees, and is effective for all public entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than a company’s adoption date of Topic 606, Revenue from Contracts with Customers. The Company early adopted ASU 2018-07 in the third quarter of 2018 and there was no material impact on its consolidated financial statements from the adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Topic 606 supersedes the revenue recognition requirements in Topic 605 Revenue Recognition (Topic 605) and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 in the first quarter of 2018 to all contracts using the modified retrospective method. The adoption of Topic 606 did not have a material impact on the Company’s historical net losses and, therefore, no adjustment was made to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

In accordance with Topic 606 disclosure requirements, the impact of adoption on the Company’s condensed consolidated balance sheet was as follows (in thousands):

	As Reported	Total Adjusted
	December 31, 2017	January 1, 2018
	Adjustment	
Balance Sheet		

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Assets

Accounts receivable, net of allowances	\$6,569	3,906	10,475
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Liabilities

Sales return liability	\$—	3,906	3,906
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	As Reported September 30, 2018	Total Adjustment	Amounts Under Previous Standards
Balance Sheet			
Assets			
Accounts receivable, net of allowances	\$ 18,956	(5,335)	13,621
Liabilities			
Sales return liability	\$ 5,335	(5,335)	—

Additionally, in accordance with Topic 606, the balance of breast product inventory estimated to be returned as of September 30, 2018 is included in the components of the Company's inventory as "finished goods – right of return" in Note 9b - Inventories. Prior to the adoption of Topic 606, the inventory impact of estimated returns for breast products was included in the "finished goods" inventory balance and was not separately disclosed.

The adoption of Topic 606 did not have a material impact on the Company's condensed consolidated statement of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows – Classifications of Certain Cash Receipts and Cash Payments (Topic 230). The standard update addresses eight specific cash flow issues not currently addressed by GAAP, with the objective of reducing the existing diversity in practice of how these cash receipts and payments are presented and classified in the statement of cash flows. The ASU requires a retrospective approach to adoption. The Company adopted the ASU in the first quarter of 2018. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of a Business. The standard adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses by providing a more specific definition of a business. The Company adopted the ASU in the first quarter of 2018 on a prospective basis. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. The standard provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award to which an entity would be required to apply modification accounting under Accounting Standard Codification, or ASC, 718. The Company adopted the ASU in the first quarter of 2018 on a prospective basis. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which supersedes FASB Accounting Standard Codification Leases (Topic 840). The standard is intended to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This accounting standard update will be effective for the Company beginning in fiscal year 2019. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which, among other things, allows companies to elect an optional transition method to apply the new lease standard through a cumulative-effect adjustment in the period of adoption. The Company is currently evaluating the impact that adoption of these standards will have on the financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Taxes (Topic 740), which allows for an entity to elect to reclassify the income tax effects on items within accumulated other comprehensive income resulting from U.S. Tax Cuts and Jobs Act to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted, including interim periods within those years. The Company does not expect to elect to reclassify the income tax effects under ASU 2018-05, as it does not have a material impact on the condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendment modifies, removes, and adds certain disclosure requirements on fair value measurements. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The Company is currently evaluating the impact adoption of the standard on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendment. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of adoption of the standard on the consolidated financial statements.

f.Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

3.Revenue

Revenue Recognition

The Company generates revenue primarily through the sale and delivery of promised goods or services to customers and recognizes revenue when control is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for the goods or services. Sales prices are documented in the executed sales contract or purchase order prior to the transfer of control to the customer. Customers may enter into a separate extended service agreement to purchase an extended warranty for miraDry products from the Company whereby the payment is due at the inception of the agreement. Revenue for extended service agreements are recognized ratably over the term of the agreements.

The Company introduced its Platinum20 Limited Warranty Program, or Platinum20, in May 2018 on all OPUS breast implants implanted in the United States or Puerto Rico on or after May 1, 2018. Platinum20 provides for financial assistance for revision surgeries and no-charge contralateral replacement implants upon the occurrence of certain qualifying events. The Company considers Platinum20 to have an assurance warranty component and a service warranty component. The assurance component is recorded as a warranty liability at the time of sale (as discussed in Note 7). The Company considers the service warranty component as an additional performance obligation and defers revenue at the time of sale by estimating a standalone selling price using the expected cost plus margin approach for each performance obligation. The Company recognizes the revenue once all performance obligations have been met. The liability for the service warranty as of September 30, 2018 was \$0.2 million, of which \$0.1 million is considered a short-term obligation and is included in “accrued and other current liabilities” and \$0.1 million is considered a long-term obligation and is included in “warranty reserve and other long-term liabilities” on the condensed consolidated balance sheet. The performance obligation is satisfied at the time that Platinum20 benefits are provided and are expected to be satisfied over the following two years for financial assistance and 20 years for product replacement. Revenue recognized for the service warranty performance obligations for the three and nine months ended September 30, 2018 was immaterial.

The Company also leverages a distributor network for selling the miraDry System internationally. The Company recognizes revenue when control of the goods or services is transferred to the distributors. Standard terms in these agreements do not allow for trial periods, right of return, refunds, rebates, payment contingent on obtaining financing or other terms that could impact the customer’s payment obligation. Contract liabilities are included in “accrued and other current liabilities” in the condensed consolidated balance sheet.

A portion of the Company’s revenue is generated from the sale of consigned inventory of breast implants maintained at doctor, hospital, and clinic locations. For these products, revenue is recognized at the time the Company is notified by the customer that the product has been implanted, not when the consigned products are delivered to the customer’s location.

For Breast Products, with the exception of the Company’s BIOCORNEUM scar management products, the Company allows for the return of products from customers within six months after the original sale, which is accounted for as variable consideration. Reserves are established for anticipated sales returns based on the expected amount calculated with historical experience, recent gross sales and any notification of pending returns. The estimated sales return is recorded as a reduction of revenue and as a sales return liability in the same period revenue is recognized. Actual sales returns in any future period are inherently uncertain and thus may differ from the estimates. If actual sales returns differ significantly from the estimates, an adjustment to revenue in the current or subsequent period would be recorded. The Company has established an allowance for sales returns of \$5.3 million and \$3.9 million as of September 30, 2018 and December 31, 2017, respectively, recorded as “sales return liability” on the condensed consolidated balance sheet under Topic 606 as of September 30, 2018 and recorded in “accounts receivable, net of allowances,” at December 31, 2017 on the condensed consolidated balance sheet, as indicated above in “Recently Adopted Accounting Standards.”

Sales tax, value-added tax, and other taxes the Company may collect concurrent with revenue-producing activities are excluded from the measurement of the transaction price and thus from revenue.

Arrangements with Multiple Performance Obligations

The Company has determined that the delivery of each unit of product in the Company’s revenue contracts with customers is a separate performance obligation. The Company’s revenue contracts may include multiple products or

services, each of which is considered a separate performance obligation. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on observable prices or using an expected cost plus margin approach when an observable price is not available. The Company invoices customers once products are shipped or delivered to customers depending on the negotiated shipping terms.

The Company defers the value of the service warranty revenue and recognizes it once all performance obligations have been met.

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Practical Expedients and Policy Election

The Company generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.

The Company does not adjust accounts receivable for the effects of any significant financing components as customer payment terms are shorter than one year.

The Company has elected to account for shipping and handling activities performed after a customer obtains control of the products as activities to fulfill the promise to transfer the products to the customer. Shipping and handling activities are largely provided to customers free of charge for the Breast Products segment. The associated costs were \$0.9 million and \$0.7 million for the nine months ended September 30, 2018 and 2017. The associated costs were \$0.3 million and \$0.2 million for the three months ended September 30, 2018 and 2017. These costs are viewed as part of the Company's marketing programs and are recorded as a component of sales and marketing expense in the condensed consolidated statement of operations as an accounting policy election. For the miraDry segment, shipping and handling charges are typically billed to customers and recorded as revenue. The shipping and handling costs incurred are recorded as a component of cost of goods sold in the condensed consolidated statement of operations. The associated costs were \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2018, respectively.

4. Acquisitions

a. Acquisition of miraDry

On June 11, 2017, Sientra entered into the Merger Agreement with miraDry, pursuant to which Sientra commenced a tender offer to purchase all of the outstanding shares of miraDry's common stock for (i) \$0.3149 per share, plus (ii) the contractual right to receive one or more contingent payments upon the achievement of certain future sales milestones. The total merger consideration was \$18.7 million in upfront cash and the contractual rights represent potential contingent payments of up to \$14.0 million. The transaction, which closed on July 25, 2017, or the Acquisition Date, added the miraDry System, the only FDA cleared device indicated to reduce underarm sweat, odor and hair of all colors, to Sientra's aesthetics portfolio. The Company did not record any professional fees related to the acquisition for the three and nine months ended September 30, 2018. The Company recorded \$2.6 million and \$3.0 million in professional fees related to the acquisition for the three and nine months ended September 30, 2017. The aggregate acquisition date fair value of the consideration transferred was approximately \$29.6 million, consisting of the following (in thousands):

	Fair Value
Cash consideration at Acquisition Date (other than debt payoff)	\$6,193
Cash consideration at Acquisition Date (debt payoff)	12,467
Deferred consideration	966
Contingent consideration	9,946
Total purchase consideration	\$29,572

The Company funded the cash consideration, including the debt payoff amount with cash on hand. The cash consideration included the payoff of miraDry's existing term loan, or the Note Purchase Agreement dated January 27, 2017 and bridge loan, or the January 2017 Bridge Loan, including interest. The deferred consideration related to cash held back to be used for either potential litigation-related expenses or for payments to certain former investors of

miraDry, as defined in the Note Purchase Agreement dated January 27, 2017, one year following the Acquisition Date. Upon reaching one year, the deferred consideration has been classified as \$0.4 million of legal settlement payable in the condensed consolidated balance sheet and \$0.6 million has offset legal fees paid that the Company had previously included in “prepaid expenses and other current assets” on the condensed consolidated balance sheet. Contingent consideration of future cash payments of a maximum of \$14.0 million represents the contractual right of certain former miraDry shareholders to receive one or more contingent payments upon achievement of certain future sales milestones and includes certain amounts due to investors related to the remaining balances on the January 2017 Bridge Note and accrued royalty obligations, with certain amounts held back for potential litigation-related

expenses. The fair value of the contingent consideration at the acquisition date was determined using a Monte-Carlo simulation model. The inputs include the estimated amount and timing of future net sales, and a risk-adjusted discount rate. The inputs are significant inputs not observable in the market, which are referred to as Level 3 inputs and are further discussed in Note 6. The contingent consideration component is subject to the recognition of subsequent changes in fair value through general and administrative expense in the condensed consolidated statement of operations.

In accordance with ASC 805, the Company has recorded the acquired assets (including identifiable intangible assets) and liabilities assumed at their respective fair value. The allocation of the total purchase price is as follows (in thousands):

	July 25, 2017
Cash	\$205
Accounts receivable, net	2,091
Inventories, net	7,064
Other current assets	170
Property and equipment, net	528
Goodwill	7,629
Intangible assets	14,800
Restricted cash	305
Other assets	12
Liabilities assumed:	
Accounts payable	(908)
Accrued and other current liabilities	(2,294)
Other current liabilities	(30)
Net assets acquired	\$29,572

Goodwill has been allocated to the miraDry reportable segment. The goodwill recognized is attributable primarily to the assembled workforce and additional market opportunities. Goodwill is not deductible for tax purposes.

A summary of the intangible assets acquired, estimated useful lives and amortization methods is as follows (in thousands):

	Amount	Estimated useful life	Amortization method
Developed technology	\$3,000	15 years	Accelerated
Customer relationships	6,300	14 years	Accelerated
Distributor relationships	500	9 years	Accelerated
Trade name	5,000	15 years	Accelerated

\$14,800

The Company retained an independent third-party appraiser to assist management in its valuation and the purchase price has been finalized.

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Unaudited Pro Forma Information

The following unaudited pro forma financial information presents combined results of operations for each of the periods presented, as if miraDry had been acquired as of the beginning of fiscal year 2017. The pro forma information includes adjustments to amortization for intangible assets acquired, the purchase accounting effect on inventory acquired, interest expense for the additional indebtedness incurred to complete the acquisition, restructuring charges in connection with the acquisition and acquisition costs. The pro forma data are for informational purposes only and are not necessarily indicative of the condensed consolidated results of operations of the combined business had the merger actually occurred at the beginning of fiscal year 2017 or of the results of future operations of the combined business. Consequently, actual results will differ from the unaudited pro forma information presented below (in thousands, except per share amounts):

	Three Months Ended September 30, 2017 Pro Forma	Nine Months Ended September 30, 2017 Pro Forma
Net sales	\$ 10,668	\$ 35,681
Net loss	(11,960)	(56,053)
Pro forma loss per share attributable to ordinary shares - basic and diluted \$	(0.62)	\$ (2.95)

5. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, customer deposits and sales return liability are reasonable estimates of their fair value because of the short maturity of these items. The fair value of the common stock warrant liability and contingent consideration are discussed in Note 6. The fair value of the debt is based on the amount of future cash flows associated with the instrument discounted using the Company's estimated market rate. As of September 30, 2018, the carrying value of the long-term debt was not materially different from the fair value.

6. Fair Value Measurements

Certain assets and liabilities are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs (other than Level 1 quoted prices) such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The Company's common stock warrant liabilities are carried at fair value determined according to the fair value hierarchy described above. The Company has utilized an option pricing valuation model to determine the fair value of its outstanding common stock warrant liabilities. The inputs to the model include fair value of the common stock related to the warrant, exercise price of the warrant, expected term, expected volatility, risk-free interest rate and dividend yield. The warrants are valued using the fair value of common stock as of the measurement date. The Company historically has been a private company and lacks company-specific historical and implied volatility

information of its stock. Therefore, it estimates its expected stock volatility based on the historical volatility of publicly traded peer companies for a term equal to the remaining contractual term of the warrants. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve for time periods approximately equal to the remaining contractual term of the warrants. The Company has estimated a 0% dividend yield based on the expected dividend yield and the fact that the Company has never paid or declared dividends. As several significant inputs are not observable, the overall fair value measurement of the warrants is classified as Level 3.

The Company assessed the fair value of the contingent consideration for future royalty payments related to the acquisition of BIOCORNEUM, the contingent consideration for future milestone payments for the acquisition of the tissue expander portfolio and the contingent consideration for the future milestone payments related to the acquisition of miraDry using a Monte-Carlo simulation model. Significant assumptions used in the measurement include future net sales for a defined term and the risk-adjusted discount rate associated with the business. As the inputs are not observable, the overall fair value measurement of the contingent consideration is classified as Level 3.

The following tables present information about the Company's liabilities that are measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 and indicate the level of the fair value hierarchy utilized to determine such fair value (in thousands):

	Fair Value Measurements as of September 30, 2018 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for common stock warrants	\$ —	—	527	527
Liability for contingent consideration	—	—	14,497	14,497
	\$ —	—	15,024	15,024

	Fair Value Measurements as of December 31, 2017 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for common stock warrants	\$ —	—	194	194
Liability for contingent consideration	—	—	12,319	12,319
	\$ —	—	12,513	12,513

The liability for common stock warrants and the current portion of contingent consideration is included in “accrued and other current liabilities” and the long-term liabilities for the contingent consideration are included in “deferred and contingent consideration” in the condensed consolidated balance sheet. The following table provides a rollforward of the aggregate fair values of the Company's common stock warrants and contingent consideration for which fair value is determined by Level 3 inputs (in thousands):

Warrant Liability	
Balance, December 31, 2017	\$ 194
Change in fair value of warrant liability	333

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Balance, September 30, 2018	\$ 527
Contingent Consideration Liability	
Balance, December 31, 2017	\$ 12,319
Change in fair value of contingent consideration	2,178
Balance, September 30, 2018	\$ 14,497

The Company recognizes changes in the fair value of the warrants in “other income (expense), net” in the condensed consolidated statement of operations and changes in contingent consideration are recognized in “general and administrative” expense in the condensed consolidated statement of operations.

7. Product Warranties

The Company offers a product replacement and limited warranty program for the Company's silicone gel breast implants, and a product warranty for the Company's miraDry Systems and consumable bioTips, which the Company considers to be assurance-type warranties. For implants occurring prior to May 1, 2018, the Company provides replacement implants and revision surgery financial assistance, up to \$3,600, for covered rupture events that occur within ten years of the implant surgery. The Company introduced its Platinum20 Limited Warranty Program in May 2018, covering OPUS breast implants implanted in the United States or Puerto Rico on or after May 1, 2018. The Company considers the program to have an assurance warranty component and a service warranty component. The service warranty component is discussed in Note 3. The assurance component is related to the lifetime no-charge contralateral replacement implants and revision surgery financial assistance, up to \$5,000, for covered rupture events that occur within twenty years of the implant surgery. Under the miraDry warranty, the Company provides a standard product warranty for the miraDry system and bioTips.

The following table provides a rollforward of the accrued warranties (in thousands):

	Nine Months Ended September 30, 2018 2017	
Beginning balance as of January 1	\$ 1,642	\$ 1,378
Acquired warranty liability	—	137
Warranty costs incurred during the period	(395)	(11)
Changes in accrual related to warranties issued during the period	639	125
Changes in accrual related to pre-existing warranties	(637)	8
Balance as of September 30	\$ 1,249	\$ 1,637

8. Net Loss Per Share

Basic net loss per share attributable to common stockholders is computed by dividing net loss by the weighted average number of common shares outstanding during each period. Diluted net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares and dilutive potential common share equivalents then outstanding, to the extent they are dilutive. Potential common shares consist of shares issuable upon the exercise of stock options and warrants (using the treasury stock method). Dilutive net loss per share is the same as basic net loss per share for all periods presented because the effects of potentially dilutive items were anti-dilutive.

	Three Months Ended September 30, 2018 2017		Nine Months Ended September 30, 2018 2017	
Net loss (in thousands)	\$ (20,545)	\$ (14,381)	\$ (57,996)	\$ (46,192)
Weighted average common shares outstanding, basic				
and diluted	28,462,975	19,328,244	24,312,300	19,079,788

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Net loss per share attributable to common stockholders \$ (0.72) \$ (0.74) \$ (2.39) \$ (2.42)

The Company excluded the following potentially dilutive securities, outstanding as of September 30, 2018 and 2017, from the computation of diluted net loss per share attributable to common stockholders for the three and nine months ended September 30, 2018 and 2017 because they had an anti-dilutive impact due to the net loss attributable to common stockholders incurred for the periods.

	September 30,	
	2018	2017
Stock options to purchase common stock	1,926,835	1,872,999
Warrants for the purchase of common stock	47,710	47,710
	1,974,545	1,920,709

9. Balance Sheet Components

a. Allowance for Doubtful Accounts

The Company has established an allowance for doubtful accounts of \$1.4 million and \$0.9 million as of September 30, 2018 and December 31, 2017, respectively, recorded net against accounts receivable in the balance sheet.

b. Inventories

Inventories, net consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Raw materials	\$ 1,946	\$ 1,642
Work in progress	1,806	3,956
Finished goods	17,805	15,298
Finished goods - right of return	1,352	—
	\$ 22,909	\$ 20,896

c. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Prepaid expenses	\$ 2,370	\$ 1,040
Other current assets	1,112	472
Total	\$ 3,482	\$ 1,512

d. Property and Equipment

Property and equipment, net consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Leasehold improvements	\$ 402	\$ 402
Manufacturing equipment and toolings	1,809	4,260
Computer equipment	478	387
Software	1,023	797
Office equipment	156	142

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Furniture and fixtures	820	816
	4,688	6,804
Less accumulated depreciation	(2,248)	(2,041)
	\$ 2,440	\$ 4,763

Depreciation expense for both the three months ended September 30, 2018 and 2017 was \$0.2 million. Depreciation expense for the nine months ended September 30, 2018 and 2017 was \$0.9 million and \$0.6 million, respectively.

Under the terms of the manufacturing agreement with Vesta, upon the commencement of Contract Year One (as defined in the agreement) which occurred following FDA-approval of all submissions related to the site-change PMA supplement for the Vesta manufacturing facility Vesta is obligated to purchase the manufacturing equipment and tooling that Sientra had originally purchased for the manufacture of Sientra's breast implant inventory at Vesta's manufacturing facility. Vesta repurchased the equipment with a net book value of \$2.7 million in the third quarter of 2018 through a reduction in the Company's accounts payable balance owed to Vesta.

e. Goodwill and Other Intangible Assets, net

Goodwill represents the excess of the purchase price over the fair value of net assets of purchased businesses. Goodwill is not amortized, but instead subject to impairment tests on at least an annual basis and whenever circumstances suggest that goodwill may be impaired. The Company's annual test for impairment is performed as of October 1 of each fiscal year. The Company makes a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If the Company concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it is not required to perform the impairment assessment for that reporting unit.

The applicable accounting guidance requires the Company to compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. The impairment loss is measured by the excess of the carrying amount of the reporting unit goodwill over the fair value of that goodwill.

The changes in the carrying amount of goodwill during the nine months ended September 30, 2018 were as follows (in thousands):

	Breast Products	miraDry	Total
Balances as of December 31, 2017			
Goodwill	\$ 19,156	\$ 7,629	\$ 26,785
Accumulated impairment losses	(14,278)	—	(14,278)
Goodwill, net	\$ 4,878	\$ 7,629	\$ 12,507
Balances as of September 30, 2018			
Goodwill	\$ 19,156	\$ 7,629	\$ 26,785
Accumulated impairment losses	(14,278)	—	(14,278)
Goodwill, net	\$ 4,878	\$ 7,629	\$ 12,507

The components of the Company's other intangible assets consist of the following (in thousands):

	Average Amortization Period (in years)	September 30, 2018		Intangible
		Gross Carrying Amount	Accumulated Amortization	Assets, net
Intangibles with definite lives				
Customer relationships	11	\$ 11,240	\$ (3,078)	\$ 8,162
Trade names - finite life	14	5,800	(460)	5,340
Developed technology	15	3,000	(277)	2,723
Distributor relationships	9	500	(108)	392
Non-compete agreement	2	80	(78)	2
Regulatory approvals	1	670	(670)	—
Acquired FDA non-gel product approval	11	1,713	(1,713)	—
Total definite-lived intangible assets		\$23,003	\$ (6,384)	\$ 16,619
Intangibles with indefinite lives				
Trade names - indefinite life	—	450	—	450
Total indefinite-lived intangible assets		\$450	\$ —	\$ 450

	Average Amortization Period (in years)	December 31, 2017		Intangible
		Gross Carrying Amount	Accumulated Amortization	Assets, net
Intangibles with definite lives				
Customer relationships	11	\$ 11,240	\$ (1,859)	\$ 9,381
Trade names - finite life	14	5,800	(216)	5,584
Developed technology	15	3,000	(95)	2,905
Distributor relationships	9	500	(40)	460
Non-compete agreement	2	80	(57)	23
Regulatory approvals	1	670	(670)	—
Acquired FDA non-gel product approval	11	1,713	(1,713)	—
Total definite-lived intangible assets		\$23,003	\$ (4,650)	\$ 18,353
Intangibles with indefinite lives				
Trade names - indefinite life	—	450	—	450
Total indefinite-lived intangible assets		\$450	\$ —	\$ 450

Amortization expense for the three months ended September 30, 2018 and 2017 was \$0.6 million and \$1.0 million, respectively. Amortization expense for the nine months ended September 30, 2018 and 2017 was \$1.7 million and \$1.8 million, respectively. The following table summarizes the estimated amortization expense relating to the Company's definite-lived intangible assets as of September 30, 2018 (in thousands):

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Period	Amortization Expense
Remainder of 2018	\$ 574
2019	2,321
2020	2,209
2021	1,996
2022	1,762
Thereafter	7,757
	\$ 16,619

f. Accrued and Other Current Liabilities

Accrued and other current liabilities consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Payroll and related expenses	\$ 6,818	\$ 3,579
Accrued commissions	2,978	3,297
Accrued equipment	200	1,091
Deferred and contingent consideration, current portion	8,440	977
Audit, consulting and legal fees	768	920
Accrued sales and marketing expenses	1,255	794
Other	4,759	2,816
	\$ 25,218	\$ 13,474

10. Long-Term Debt and Revolving Loan

On July 25, 2017, the Company entered into a Credit and Security Agreement, or the Term Loan Credit Agreement, and a Credit and Security Agreement, or the Revolving Credit Agreement with MidCap, and, together with the Term Loan Credit Agreement, the Credit Agreements, which replaced the Company's then-existing Silicon Valley Bank Loan Agreement, or the SVB Loan Agreement.

Under the terms of the Term Loan Credit Agreement, as of July 25, 2017, MidCap funded \$25.0 million to the Company, or the Closing Date Term Loan. MidCap also made available to the Company until March 31, 2018, a \$10.0 million term loan, or the March 2018 Term Loan, subject to the satisfaction of certain conditions, including FDA certifications of the manufacturing facility operated by Vesta, and an additional \$5.0 million term loan, subject to the satisfaction of certain conditions, including evidence that the Company's Net Revenue for the past 12 months was greater than or equal to \$75.0 million, as defined in the Term Loan Credit Agreement, collectively the Term Loans. On April 18, 2018, the Company amended the Term Loan Credit Agreement pursuant to which the parties agreed to adjust the date by which the Company must obtain FDA approval of its PMA supplement in order to access the March 2018 Term Loan until April 30, 2018. In April 2018, upon FDA approval of the Company's PMA supplement, MidCap funded the \$10.0 million March Term Loan. Under the Revolving Credit Agreement, MidCap made available to the Company a revolving line of credit, or the Revolving Loan. The amount of loans available to be drawn is based on a borrowing base equal to 85% of the net collectible value of eligible accounts receivable plus 40% of eligible finished goods inventory, or the Borrowing Base, provided that availability from eligible finished goods inventory does not exceed 20% of the Borrowing Base. The Company used a portion of the \$25.0 million of proceeds from the Closing Date Term Loan to repay in full the Company's then-existing indebtedness under its SVB Loan Agreement and to pay fees and expenses in connection with the foregoing and the Company intends to use the remainder of the proceeds for general corporate purposes.

Any indebtedness under the Term Loan Credit Agreement bears interest at a floating per annum rate equal to the LIBOR as reported by MidCap with a floor of 1.00%, which as of September 30, 2018 was 2.10%, plus 7.50%. The Term Loans have a scheduled maturity date of December 1, 2021, or the Maturity Date. The Company must make monthly payments of accrued interest under the Term Loans from the funding date of the Term Loans, until December 31, 2018, followed by monthly installments of principal and interest through the Maturity Date. Under the terms of the Term Loan Credit Agreement, the Company has the option to extend the interest only period an additional six months to June 30, 2019 as long as the Company remains in compliance with the Term Loan Agreement. As of September 30, 2018, the Company intends to extend the interest only period through June 30, 2019. The Company may prepay all of the Term Loans prior to its maturity date provided the Company pays MidCap a prepayment fee. The Company paid an origination fee of 0.50% of the Term Loans total amount of \$40.0 million on the closing date. As of September 30, 2018, there was \$35.0 million outstanding related to the Term Loans. As of September 30, 2018, the unamortized debt issuance costs on the Term Loans was approximately \$0.1 million current portion and approximately \$0.1 million long-term portion and are included as a reduction to debt on the condensed consolidated balance sheet.

Any indebtedness under the Revolving Credit Agreement bears interest at a floating per annum rate equal to the LIBOR as reported by MidCap with a floor of 1.00%, plus 4.50%. The Company may make and repay borrowings from time to time under the Revolving Credit Agreement until the maturity of the facility on December 1, 2021. The Company is required to pay an annual collateral management fee of 0.50% on the outstanding balance, and an annual unused line fee of 0.50% of the average unused portion. The Company paid an origination fee of 0.50% of the Revolving Loan amount of \$10.0 million on the closing date. The Company classifies the amounts borrowed under the Revolving Loan as short term because it is the Company's intention to use the line of credit to borrow and pay back funds over short periods of time. As of September 30, 2018, there were no borrowings outstanding under the Revolving Loan. As of September 30, 2018, the unamortized debt issuance costs related to the Revolving Loan was approximately \$0.1 million and was included in other long-term assets on the condensed consolidated balance sheet.

The amortization of debt issuance costs for the three months ended September 30, 2018 and 2017 was \$47,000 and \$28,500, respectively. The amortization of debt issuance costs for both the nine months ended September 30, 2018 and 2017 was \$0.1 million, and was included in interest expense in the condensed consolidated statements of operations.

The Credit Agreements include customary affirmative and restrictive covenants and representations and warranties, including a financial covenant for minimum revenues, a financial covenant for minimum cash requirements, a covenant against the occurrence of a "change in control," financial reporting obligations, and certain limitations on indebtedness, liens, investments, distributions, collateral, mergers or acquisitions, taxes, and deposit accounts. Upon the occurrence of an event of default, a default interest rate of an additional 5.0% may be applied to any outstanding principal balances, and MidCap may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the Credit Agreements. The Company's obligations under the Credit Agreements are secured by a security interest in substantially all of The Company's assets.

Future Principal Payments of Debt

The future schedule of principal payments for the outstanding Term Loans as of September 30, 2018 was as follows (in thousands):

Fiscal Year	
2019	\$7,000
2020	14,000
2021	14,000
2022	—
2023	—
Thereafter	—
Total	\$35,000

11. Stockholders' Equity

a. Authorized Stock

The Company's Amended and Restated Certificate of Incorporation authorizes the Company to issue 210,000,000 shares of common and preferred stock, consisting of 200,000,000 shares of common stock with \$0.01 par value and 10,000,000 shares of preferred stock with \$0.01 par value. As of September 30, 2018 and December 31, 2017, the Company had no preferred stock issued or outstanding.

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b. Common Stock Warrants

On January 17, 2013, the Company entered into a Loan and Security Agreement, or the Original Term Loan Agreement, with Oxford Finance, LLC, or Oxford. On June 30, 2014, the Company entered into an Amended and Restated Loan and Security Agreement, or the Amended Term Loan Agreement, with Oxford. In connection with the Original Term Loan Agreement and the Amended Term Loan Agreement, the Company issued to Oxford (i) seven-year warrants in January 2013 to purchase shares of the Company's common stock with a value equal to 3.0% of the tranche A, B and C term loans amounts and (ii) seven-year warrants in June 2014 to purchase shares of the Company's common stock with a value equal to 2.5% of the tranche D term loan amount. The warrants have an exercise price per share of \$14.671. As of September 30, 2018, there were warrants to purchase an aggregate of 47,710 shares of common stock outstanding.

c. Stock Option Plans

In April 2007, the Company adopted the 2007 Equity Incentive Plan, or the 2007 Plan. The 2007 Plan provides for the granting of stock options to employees, directors and consultants of the Company. Options granted under the 2007 Plan may either be incentive stock options or nonstatutory stock options. Incentive stock options, or ISOs, may be granted only to Company employees. Nonstatutory stock options, or NSOs, may be granted to all eligible recipients. A total of 1,690,448 shares of the Company's common stock were initially reserved for issuance under the 2007 Plan.

The Company's board of directors adopted the 2014 Equity Incentive Plan, or 2014 Plan, in July 2014, and the stockholders approved the 2014 Plan in October 2014. The 2014 Plan became effective upon completion of the IPO on November 3, 2014, at which time the Company ceased granting awards under the 2007 Plan. Under the 2014 Plan, the Company may issue ISOs, NSOs, stock appreciation rights, restricted stock awards, restricted stock unit awards and other forms of stock awards, or collectively, stock awards, all of which may be granted to employees, including officers, non-employee directors and consultants of the Company and their affiliates. ISOs may be granted only to employees. A total of 1,027,500 shares of common stock were initially reserved for issuance under the 2014 Plan, subject to certain annual increases. As of September 30, 2018, a total of 132,719 shares of the Company's common stock were available for issuance under the 2014 Plan.

Pursuant to a board-approved Inducement Plan, the Company may issue NSOs and restricted stock unit awards, or collectively, stock awards, all of which may only be granted to new employees of the Company and their affiliates in accordance with NASDAQ Stock Market Rule 5635(c)(4) as an inducement material to such individuals entering into employment with the Company. As of September 30, 2018, inducement grants for 876,441 shares of common stock have been awarded, and 91,306 shares of common stock were available for future issuance under the Inducement Plan.

Options under the 2007 Plan and the 2014 Plan may be granted for periods of up to ten years as determined by the Company's board of directors, provided, however, that (i) the exercise price of an ISO shall not be less than 100% of the estimated fair value of the shares on the date of grant, and (ii) the exercise price of an ISO granted to a more than 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. An NSO has no such exercise price limitations. NSOs under the Inducement Plan may be granted for periods of up to ten years as determined by the board of directors, provided, the exercise price will not be less than 100% of the estimated fair value of the shares on the date of grant. Options generally vest with 25% of the grant vesting on the first anniversary and the balance vesting monthly on a straight-lined basis over the requisite service period of three additional years for the award. Additionally, options have been granted to certain key executives that vest upon achievement of performance conditions based on performance targets as defined by the board of directors, which have included net sales targets and defined corporate objectives over the performance period with possible payout ranging from 0% to 100% of the target award. Compensation expense is recognized on a straight-lined basis over the vesting term of one year based upon the probable performance target that will be met. The vesting provisions of individual options may vary but provide for vesting of at least 25% per year.

The following summarizes all option activity under the 2007 Plan, 2014 Plan and Inducement Plan:

	Option Shares	Weighted average exercise price	Weighted average remaining contractual term (year)
Balances at December 31, 2017	2,179,787	\$ 7.60	7.27
Exercised	(147,463)	7.79	
Forfeited	(77,341)	11.44	
Balances at September 30, 2018	1,954,983	\$ 7.43	6.56

For stock-based awards the Company recognizes compensation expense based on the grant date fair value using the Black-Scholes option valuation model. Stock-based compensation expense related to stock options was \$0.5 million for both the three months ended September 30, 2018 and 2017. Stock-based compensation expense related to stock options was \$1.3 million and \$1.6 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was \$1.2 million of unrecognized compensation costs related to stock options. The expense is recorded within the operating expense components in the condensed consolidated statement of operations based on the recipients receiving the awards. These costs are expected to be recognized over a weighted average period of 1.45 years.

d. Restricted Stock Units

The Company has issued restricted stock unit awards, or RSUs, under the 2014 Plan and the Inducement Plan. The RSUs issued to employees generally vest on a straight-line basis, either quarterly over a 4-year requisite service period or annually over a 3-year requisite service period. RSUs issued to non-employees generally vest either monthly or annually over the service term.

Activity related to RSUs is set forth below:

	Number of shares	Weighted average grant date fair value
Balances at December 31, 2017	928,552	\$ 9.12
Granted	1,738,940	13.98
Vested	(464,507)	10.18
Forfeited	(154,112)	11.23
Balances at September 30, 2018	2,048,873	\$ 12.84

Stock-based compensation expense for RSUs for the three months ended September 30, 2018 and 2017 was \$3.8 million and \$1.0 million, respectively. Stock-based compensation expense for RSUs for the nine months ended

September 30, 2018 and 2017 was \$8.4 million and \$2.8 million respectively. As of September 30, 2018, there was \$23.8 million of total unrecognized compensation costs related to non-vested RSU awards. The cost is expected to be recognized over a weighted average period of 2.33 years.

e. Employee Stock Purchase Plan

The Company's board of directors adopted the 2014 Employee Stock Purchase Plan, or ESPP, in July 2014, and the stockholders approved the ESPP in October 2014. The ESPP allows eligible employees to purchase shares of the Company's common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The ESPP provides for offering periods not to exceed 27 months, and each offering period will include purchase periods, which will be the approximately six-month period commencing with one exercise date and ending with the next exercise date. Employees are able to purchase shares at 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the purchase date. A total of 255,500 shares of common stock were initially reserved for issuance under the ESPP, subject to certain annual increases.

During the nine months ended September 30, 2018, employees purchased 145,616 shares of common stock at a weighted average price of \$6.82 per share. As of September 30, 2018, the number of shares of common stock available for future issuance was 543,955.

The Company estimated the fair value of employee stock purchase rights using the Black-Scholes model. Stock-based compensation expense related to the ESPP was \$0.2 million and \$0.1 million for the three months ended September 30, 2018 and 2017, respectively. Stock-based compensation expense related to the ESPP was \$0.4 million and \$0.3 million for the nine months ended September 30, 2018 and 2017, respectively.

12. Income Taxes

The Company operates in several tax jurisdictions and is subject to taxes in each jurisdiction in which it conducts business. To date, the Company has incurred cumulative net losses and maintains a full valuation allowance on its net deferred tax assets due to the uncertainty surrounding realization of such assets. Tax expense was \$0 and \$16,000 for the three months ended September 30, 2018 and 2017, respectively. Tax expense was \$0 and \$0.1 million for the nine months ended September 30, 2018 and 2017, respectively.

13. Segment Information

Reportable Segments

The Company has two reportable segments: Breast Products and miraDry. The Breast Products segment focuses on sales of silicone gel breast implants, tissue expanders and scar management products under the brands Sientra, AlloX2, Dermaspan, Softspan and BIOCORNEUM. The miraDry segment focuses on sales of the miraDry System, consisting of a console and a handheld device which uses consumable single-use bioTips. These segments align with the Company's principal target markets. On July 25, 2017, the Company acquired miraDry. See Note 4 – Acquisitions for additional details. miraDry has been included in the condensed consolidated results of operations as of the Acquisition Date and financial performance of the acquired business is reported in the miraDry segment. The segments represent components for which separate financial information is available that is utilized on a regular basis by the Chief Executive Officer, who has been identified as the Chief Operating Decision Maker, or CODM, as defined by authoritative guidance on segment reporting, in determining how to allocate resources and evaluate performance. The segments are determined based on several factors, including client base, homogeneity of products, technology, delivery channels and similar economic characteristics.

The Company's CODM assesses the performance of each segment and allocates resources to those segments based on net sales and operating income (loss). Operating income (loss) by segment includes items that are directly attributable to each segment, including sales and marketing functions, as well as finance, information technology, human resources, legal and related corporate infrastructure costs, along with certain benefit-related expenses. There are no unallocated expenses for the two segments.

The following tables present the net sales, net operating loss and net assets by reportable segment for the periods presented (in thousands):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales				
Breast Products	\$8,613	\$7,655	\$26,566	\$23,313
miraDry	8,262	2,164	22,538	2,164
Total net sales	\$16,875	\$9,819	\$49,104	\$25,477

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	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Loss from operations				
Breast Products	\$13,873	\$11,253	\$39,111	\$42,878
miraDry	5,689	2,602	16,278	2,602
Total loss from operations	\$19,562	\$13,855	\$55,389	\$45,480

	September 30,	December 31,
	2018	2017
Assets		
Breast Products	\$ 144,333	\$ 59,365
miraDry	36,747	32,848
Total assets	\$ 181,080	\$ 92,213

14. Commitments and Contingencies

a. Operating Leases

The Company's leases for its general office facilities are in Santa Barbara, California and Santa Clara, California, with leases expiring February 2020 and May 2024, respectively. The Company also leases additional industrial space for warehouse, research and development and additional general office use. Rent expense was \$0.3 million and \$0.2 million for the three months ended September 30, 2018 and 2017, respectively. Rent expense was \$0.9 million and \$0.5 million for the nine months ended September 30, 2018 and 2017, respectively. The Company recognizes rent expense on a straight-line basis over the lease term.

b. Contingencies

The Company is subject to claims and assessment from time to time in the ordinary course of business. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Class Action Shareholder Litigation

On September 25, 2015, a lawsuit styled as a class action of the Company's stockholders was filed in the United States District Court for the Central District of California naming the Company and certain of its officers as defendants for allegedly false and misleading statements concerning the Company's business, operations, and prospects. On October 28, November 5, and November 19, 2015, three lawsuits styled as class actions of the Company's stockholders were filed in the Superior Court of California for the County of San Mateo naming the Company, certain of its officers and directors, and the underwriters associated with the Company's follow-on public offering that closed on September 23, 2015 as defendants for allegedly false and misleading statements in the Company's offering documents associated with the follow-on offering concerning its business, operations, and prospects. On September 13, 2016, the parties to the actions pending in the San Mateo Superior Court and the United States District Court for the Central District of California signed a memorandum of understanding that sets forth the material deal points of a settlement that covers both actions and includes class-wide relief. Following a final fairness hearing in the federal court, on May 23, 2017, the federal court extended an order granting final approval of the settlement and dismissing the federal court action

with prejudice. Following a final fairness hearing in the state court, on May 31, 2017, the state court entered an order granting final approval of the settlement and dismissing the state court action with prejudice.

As a result of these developments, the Company determined a probable loss had been incurred and recognized a net charge to earnings of approximately \$1.6 million for the nine months ended September 30, 2016 within general and administrative expense which was comprised of the loss contingency of approximately \$10.9 million, net of expected insurance proceeds of approximately \$9.4 million. In the first quarter of 2017, the Company received \$9.3 million in insurance proceeds and paid the \$10.9 million loss contingency. The remaining insurance proceeds receivable is classified as “prepaid expenses and other current assets” on the accompanying condensed consolidated balance sheets.

miraDry Class Action Litigation

On August 3, 2017, a lawsuit styled as a verified class action on the part of the former stockholders of miraDry was filed in the Court of Chancery for the State of Delaware against the former board of directors of miraDry, or the Defendants, alleging breach of their fiduciary duties in connection with the Company's acquisition of miraDry. On August 30, 2017, the Defendants moved to dismiss the verified class action complaint for failure to state a claim upon which relief can be granted. On November 11, 2017 the parties notified the Court that they had reached an agreement to settle the matter pending completion of confirmatory discovery regarding the fairness of the settlement and obtaining approval from the court. Under the terms of the proposed settlement, in exchange for a full and final settlement and release of all claims, the Defendants (and/or their indemnitors and/or insurers) agreed to pay a settlement consideration of \$0.4 million. The miraDry Merger Agreement contained a holdback amount expected to be used for the settlement and associated costs of the miraDry Class Action litigation. The holdback amount has been used to offset \$0.6 million of legal fees and \$0.4 million is included in "legal settlement payable" on the condensed consolidated balance sheet as of September 30, 2018.

Silimed Litigation

On July 27, 2017, the Company entered into a settlement agreement, or the Settlement Agreement, with Silimed to settle outstanding litigations with Silimed. Pursuant to the Settlement Agreement, in exchange for a mutual release of claims and covenants not to sue or pursue certain litigation, Sientra paid Silimed a lump sum of \$9.0 million on September 7, 2017 and paid an additional \$1.0 million on June 29, 2018. In addition, should the Company enter into international markets using certain breast implant specifications, the Company has agreed to make royalty payments of \$12.5 on each of its net sales of such products, up to a maximum royalty of \$5.0 million.

It is possible that additional suits will be filed, or allegations made by stockholders, with respect to these same or other matters and also naming the Company and/or its officers and directors as defendants. The Company believes it has meritorious defenses and intends to defend these lawsuits vigorously.

15.Subsequent Events

Amendment of Lease

On October 19, 2018, miraDry, entered into a First Amendment to the Lease, or the Lease Amendment, effective October 9, 2018 with IPX Walsh Bowers Investors, L.P., or the Landlord. The Lease Amendment amends the Lease dated December 16, 2013, as amended, or collectively, the Lease, for the office space located at 2845 Bowers Avenue, 2855 Bowers Avenue, and 2790 Walsh Avenue, Santa Clara, California containing approximately 29,256 rentable square feet, or the Premises. The Lease Amendment extends the term for the Lease for a period of sixty-two (62) months until its new expiration on July 31, 2024. Pursuant to the Lease Amendment, miraDry agreed to provide an amendment to its existing letter of credit in the amount of \$0.3 million to extend the expiration date of such letter until September 30, 2024.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2017 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 13, 2018 and 10-K/A filed on April 30, 2018, or the Annual Report. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "Sientra," "the Company," "we," "us" and "our" refer to Sientra, Inc.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, which are subject to the "safe harbor" created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q and in our other filings with the SEC. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements.

Overview

We are a medical aesthetics company committed to making a difference in patients' lives by enhancing their body image, growing their self esteem and restoring their confidence. We were founded to provide greater choices to board certified plastic surgeons and patients in need of medical aesthetics products. We have developed a broad portfolio of products with technologically differentiated characteristics, supported by independent laboratory testing and strong clinical trial outcomes. We sell our breast implants and tissue expanders exclusively to board certified and board admissible plastic surgeons and tailor our customer service offerings to their specific needs, which we believe helps secure their loyalty and confidence.

On June 11, 2017, we entered into a Merger Agreement with miraDry (formerly Miramar Labs) pursuant to which we commenced a tender offer to purchase all of the outstanding shares of miraDry's common stock. Pursuant to the transaction, which closed on July 25, 2017 we added the miraDry System, the only FDA cleared device to reduce underarm sweat, odor and hair of all colors to our aesthetics portfolio. Following our acquisition of miraDry in July 2017, we began selling the miraDry System and bioTips. As a result of the miraDry acquisition, we determined that we will conduct our business in two operating segments: Breast Products and miraDry. The Breast Products segment focuses on sales of our breast implants, tissue expanders and scar management products under the brands OPUS, AlloX2, Dermaspan, Softspan and BIOCORNEUM. The miraDry segment focuses on sales of the miraDry System, consisting of a console and a handheld device which uses consumable single-use bioTips.

On May 7, 2018, we completed an underwritten follow-on public offering in which we sold 7,407,408 shares of common stock at \$13.50 per share, as well as 1,111,111 additional shares of common stock pursuant to the full exercise of the over-allotment option granted to the underwriters. Net proceeds to the Company were approximately \$107.6 million after deducting underwriting discounts and commissions of \$6.9 million and offering expenses of approximately \$0.5 million.

We sell both our Breast Products and miraDry products in the U.S. through a direct sales organization, which as of September 30, 2018, consisted of 97 employees, including 80 sales representatives and 17 sales managers. Additionally, we also sell our miraDry System in several international markets where we leverage a combination of distributor relationships and direct sales efforts.

Our Markets

The global market for aesthetic procedures is significant. The American Society for Aesthetic Plastic Surgery, or ASAPS, estimates that U.S. consumers spent approximately \$15 billion on approximately 13 million aesthetic procedures in 2016, including both surgical and non-invasive cosmetic treatments.

Breast Products

Breast augmentation surgery remains the leading aesthetic surgical procedure by dollars and number of procedures in the United States, with over 333,000 primary breast augmentation procedures performed in the United States in 2017, according to ASAPS. Based on the number of procedures reported by ASAPS and American Society of Plastic Surgeons, or ASPS, and our estimates of average selling prices, implant mix and implants per procedure, we estimate the size of our current and potential breast markets to be approximately \$1.5 billion on a global basis, with the size of our addressable U.S. market (based on our currently available breast products, including scar management products) estimated at approximately \$700 million.

We sell our breast implants and tissue expanders exclusively to board-certified and board-admissible plastic surgeons, as determined by the American Board of Plastic Surgery, who we refer to as Plastic Surgeons. These surgeons have completed the extensive multi-year plastic surgery residency training required by the American Board of Plastic Surgery. While aesthetic procedures are performed by a wide range of medical professionals, including dermatologists, otolaryngologists, obstetricians, gynecologists, dentists and other specialists, the majority of aesthetic surgical procedures are performed by Plastic Surgeons. Plastic Surgeons are thought leaders in the medical aesthetics industry. According to the American Board of Plastic Surgery, there are approximately 6,500 board-certified plastic surgeons in the United States. In addition, our Breast Products segment is also supported by Multi Specialty Consultants, or MSCs, that sell scar management products directly to physicians, and we have recently expanded our sales channel to include a dedicated national accounts team focused on selling our tissue expanders to hospitals.

miraDry

According to the ASAPS, cosmetic procedures have increased by 35% over the past five years with nonsurgical procedures up 39%. Laser and light-based hair removal continues to be the largest volume among non-invasive and non-injectable procedures. As an emerging market, energy-based procedures for sweat and odor reduction are not currently tracked by ASAPS data. No one treatment procedure is offered by all physicians, and treatments vary in terms of the treatment goal and desired effect. As a result, the total aesthetic market as reported by ASAPS does not represent the market potential for miraDry or any other single product or treatment, but illustrates that each year patients elect to have millions of aesthetic procedures. We believe several factors are contributing to the ongoing

growth in aesthetic procedures, including:

• **Broader availability of safe non-invasive aesthetic procedures.** Technological developments have resulted in the introduction of a broader range of safe, non-invasive aesthetic procedures. According to the ASAPS, non-invasive aesthetic treatments are growing faster than invasive surgical procedures.

• **Increased physician focus on aesthetic procedures.** We believe increased restrictions imposed by managed care and government agencies on reimbursement for medical treatments are motivating our customers to establish or expand their elective aesthetic practices, which generally consist of procedures paid for directly by patients. We expect this trend to continue as our customers look for ways to expand their practices and improve profitability.

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Hyperhidrosis is a medical condition of varying degree in which a person sweats excessively. The prevalence of hyperhidrosis in the United States is significant. A study published by Strutton et al. in the June 2004 issue of the Journal of the American Academy of Dermatology, or AAD, titled “US prevalence of hyperhidrosis and impact on individuals with axillary hyperhidrosis: Results from a national survey,” estimated that 2.8% of the general population has hyperhidrosis (in this study defined as excessive or abnormal sweating) with 50.8% thereof having axillary hyperhidrosis. Additionally, the general consensus of medical practitioners is that the definition of hyperhidrosis includes anyone who is bothered by their sweat. As such, the definition of axillary hyperhidrosis is broad in scope and the condition depends upon whether patients have determined that their sweating is excessive or abnormal. Because this assessment is subjectively determined by the patients themselves, there is no quantifiable standard that medical practitioners use to determine whether a patient is suffering from axillary hyperhidrosis. If patients subjectively determine that their sweating is excessive and as such are bothered by their sweating, such patients are considered to be suffering from axillary hyperhidrosis.

In 2017, we commissioned a survey of over 2,000 consumers, evaluating several criteria including sweat bothered, dissatisfaction with current treatment, interest in a non-surgical long-term solution, and interest in the miraDry product description. Based on this survey, we believe there are approximately 37 million people in the U.S. alone that are bothered by sweat, dissatisfied with their current treatment and/or have an interest in seeking a long-term solution, and that approximately 15 million people would be interested in our miraDry solution. Based on this survey and our average selling price per bioTip, we estimate the size of our addressable consumables market to be approximately \$6 billion in the U.S. Further, based on this survey, our estimates of the number of aesthetic practices in the U.S., the indicated number of people interested in a miraDry solution and our average selling price per miraDry console, we estimate the size of our addressable equipment market to be approximately \$1.4 billion on a global basis, with the size of our addressable U.S. market estimated at approximately \$700 million.

Our Competitive Strengths

We believe that we are well positioned to take advantage of opportunities afforded by current market dynamics. By focusing on products with technologically differentiated characteristics, demonstrating strong clinical data, offering more product choices and providing services tailored specifically to the needs of physicians, we believe we can enhance our position in the market. Our competitive strengths include:

Proven and experienced leadership team. We have a highly experienced management team at both the corporate and operational levels with significant experience in the medical aesthetics industry. Members of our senior management team have extensive experience in the medical aesthetics industry.

Breast Products

Differentiated silicone gel and texturing technologies. We incorporate differentiated technologies into our proprietary breast implants to distinguish ourselves from our competitors, including our silicone shell, High Strength Cohesive silicone gel and a textured surface. Our breast implants offer a desired balance between strength, shape retention and softness due to the High-Strength Cohesive silicone gel used in our products. In addition, the texturing on Sientra’s implant shell is designed to reduce the incidence of malposition, rotation and capsular contracture.

Strong clinical trial outcomes. Our clinical trial results demonstrate the safety and effectiveness of our breast implants. Our breast implants were approved by the FDA based on data we collected from our ongoing, long term clinical trial of our breast implants in 1,788 women across 36 investigational sites in the United States. The clinical data we collected over a ten-year follow-up period demonstrated rupture rates, capsular contracture rates and reoperation rates that were comparable to or better than those of our competitors, based on our competitors' published ten-year data.

Innovative services that deliver an improved customer experience. Our customer service offerings are intended to accommodate and anticipate the needs of our Plastic Surgeons so they can focus on providing better services to their patients. Historically, we have provided an industry-leading ten year limited warranty that provided patients with a cash reimbursement for certain out of pocket costs related to revision surgeries in a covered event; a lifetime no charge implant replacement program for covered ruptures; and our industry first C3 Program through which we

offered no charge replacement implants to breast augmentation patients who experienced capsular contracture within the first five years after implantation with our smooth or textured breast implants. On April 25, 2018, we announced our new Sientra Platinum20 Warranty, which we believe provides an industry-leading policy of no-charge replacement implants, as well as financial assistance, for certain qualifying events occurring within twenty years of the initial procedure. We also offer specialized educational initiatives and a streamlined ordering, shipping and billing process.

Board certified plastic surgeon focus. We sell our breast implants and tissue expanders exclusively to board certified and board admissible plastic surgeons who are thought leaders in the medical aesthetics industry. We address the specific needs of Plastic Surgeons through continued product innovation, expansion of our product portfolio and enhanced customer service offerings. We believe that securing the loyalty and confidence of Plastic Surgeons is essential to our success and that our association with Plastic Surgeons enhances our credibility and aligns with our focus on making a difference in patients' lives.

miraDry

Strong clinical trial outcomes. The miraDry System is the only FDA cleared device to reduce underarm sweat, odor and hair of all colors. Clinical studies involving more than 150 patients have shown that one or two miraDry procedures can noticeably and measurably reduce the amount of sweat from the axilla, or underarm. In our study involving 120 subjects, 89% of patients that received treatment experienced reduction in their sweat with no reported deaths, injuries requiring immediate medical attention to prevent death, or permanent impairment. In a second study involving 31 patients, patients reported an average of 82% sweat reduction at 12 months and 100% of patients reported an improvement in their Hyperhidrosis Disease Severity Scale, or HDSS, score at 24 months, with all patients reporting their sweating as either never noticeable or tolerable. Because sweat glands do not regenerate after the procedure, we believe the results are lasting.

Patient satisfaction. miraDry allows most patients to achieve noticeable and measurable aesthetic results without the pain, expense, downtime, and risks associated with invasive and minimally-invasive procedures for sweat, odor and hair reduction. In addition, unlike many other non-invasive procedures, patients are not required to undergo multiple or recurring treatment procedures to obtain aesthetic results. According to RealSelf.com, a leading online community helping people make confident choices in elective cosmetic procedures, as of January 16, 2018, the miraDry procedure received a 90% "worth it" rating from patients.

Reproducible results. The miraDry procedure requires limited training and skill to obtain successful aesthetic results. The miraDry System was designed to be easy to operate and largely automated, resulting in a more consistent application and reproducible results.

Differentiated, high-value product for physician practices. Our selective distribution strategy was designed to enable our customers to market miraDry as a highly differentiated, non-invasive sweat, odor, and hair reduction procedure. Based on our commercial data and customer experiences, we have seen attractive economic benefits for our customers.

Our Strategy

Our objective is to become a leading global provider of differentiated medical aesthetic products and services tailored to meet the needs of physicians, allowing us to deliver on our commitment to enhance and make a difference in patients' lives. To achieve our objective, we are pursuing the following business strategies:

Create awareness of our differentiated technologies, products and services with Plastic Surgeons and consumers. Since we commenced commercial operations, we have focused most of our marketing efforts on Plastic Surgeons to promote and create awareness of the benefits of our products. Among other marketing programs targeted at Plastic Surgeons, we offer educational initiatives exclusively to Plastic Surgeons through our Sientra Education Forums, and we have continued our consumer-directed efforts, including an exclusive collaboration with RealSelf.com. We believe that continuing to invest in expanding marketing initiatives will have a positive impact on our business.

Selectively pursue acquisitions and expand into new markets. We may continue to selectively pursue domestic and international acquisitions of businesses or technologies that may allow us to leverage our relationships with Plastic Surgeons and our existing commercial infrastructure to provide us with new or complementary products or technologies, and allow us to compete in new geographic markets or market segments or to increase our market share. For example, we began selling BIOCORNEUM directly to physicians in the United States after we acquired the rights to do so, in addition to rights relating to certain other specified sales channels from Enaltus in March 2016. We began selling the AlloX2 and Dermaspan lines of breast tissue expanders, and the Softspan line of general tissue expanders, after we acquired these product lines from Specialty Surgical Products, or SSP, in November 2016. We began selling the miraDry System and bioTips after the acquisition of miraDry in July 2017 and, based on our commissioned survey of over 2,000 consumers, we believe the market for these products represents a growing and demographically diverse opportunity to drive sales.

Broaden our product portfolio and launch new products and services. We plan to continue to develop products that address the unmet needs of physicians and patients by leveraging our innovative technologies in combination with our regulatory and product development expertise. We have a number of new breast implants and tissue expanders under development with different characteristics and configurations. We believe these expanded product choices will allow Plastic Surgeons to potentially achieve better outcomes for their patients. In addition, we plan to take advantage of cross selling and product bundling opportunities.

Highly optimized, experienced and fully trained sales force. We maintain separate sales forces within our Breast Products and miraDry segments. As of September 30, 2018, our combined worldwide sales force consisted of 98 sales representatives and directors in addition to our distributor network. Our Breast Products sales force primarily consists of Plastic Surgery Consultants, or PSCs, focused on selling all breast products and tissue expanders exclusively to board certified and board admissible plastic surgeons. Additionally, our Breast Products segment is also supported by MSCs that sell scar management products directly to physicians. Our miraDry sales force is a bifurcated organization that is split between Area Sales Managers, or ASMs, who focus on system sales, and Practice Development Managers, or PDMs, who focus on high margin consumable bioTip sales, assisting practices to market miraDry to patients, undergo product training and drive system utilization. We have continued to hire high quality, experienced sales representatives and sales management personnel in all categories and train the sales organization to optimize performance in their respective roles. We believe our sales force will continue to generate increased customer adoption and patient awareness momentum in the marketplace.

Invest in clinical studies and peer reviewed articles with key opinion leaders. We intend to continue to invest in clinical studies in order to provide published peer reviewed articles that support the clinical benefits of our products and technologies over those of our competitors. We believe our relationship with Plastic Surgeons and our continued focus on providing differentiated products and services will allow us to leverage our existing capabilities to increase our share of the breast implant market specifically and the medical aesthetics market generally.

Increase our international presence. There is strong global demand for aesthetic procedures outside of North America. We intend to increase our market penetration outside of North America and build global brand recognition. We have received regulatory approval or are otherwise free to market miraDry in numerous international markets. We intend to seek regulatory approval to market miraDry in additional international markets, as well as grow our international sales and marketing organization to focus on increasing sales and market share, as well as strengthening our customer relationships. As part of this strategy, we are and intend to continue to opportunistically deploy a direct sales force in select international markets.

Our Products

Breast Products

Our primary products are silicone gel breast implants for use in breast augmentation and breast reconstruction procedures, which we offer in approximately 400 variations of shapes, sizes, fill volumes and textures. Our breast implants are primarily used in elective procedures that are generally performed on a cash pay basis. Many of our proprietary breast implants incorporate one or more technologies that differentiate us from our competitors, including High Strength Cohesive silicone gel and shell texturing. Our breast implants offer a desired balance between strength, shape retention and softness due to the silicone shell and High Strength Cohesive silicone gel used in our implants. The texturing on Sientra's implant shell is designed to reduce the incidence of malposition, rotation and capsular contracture.

Our breast implants were approved by the FDA in 2012, based on three-year data from our recently completed, long term clinical trial of our breast implants in 1,788 women across 36 investigational sites in the United States, which included 3,506 implants (approximately 53% of which were smooth and 47% of which were textured). According to a recent publication by the Plastic and Reconstructive Surgery Journal, our clinical trial represents the largest gel breast implant pivotal trial in the United States and examined the long-term safety and effectiveness of gel breast implants. The study included a large magnetic resonance imaging, or MRI, cohort, with 571 patients. The MRI cohort is a subset of study patients that underwent regular MRI screenings in addition to the other aspects of the clinical trial protocol prior to FDA approval. Post-approval, all patients in the long-term clinical trial were subject to serial MRI screenings as part of the clinical protocol. The clinical data we collected over a ten year follow up period demonstrated rupture rates, capsular contracture rates and reoperation rates that were comparable to, or better than, those of our competitors, at similar time points. In addition to our pivotal study, our clinical data is supported by our completed five-year Continued Access Study of 2,497 women in the United States. We have also commissioned a number of bench studies run by independent laboratories that we believe further demonstrate the advantages of our breast implants over those of our competitors.

On August 9, 2016, we announced our collaboration with Vesta Intermediate Funding, Inc., or Vesta, a Lubrizol Lifesciences company, pursuant to which we worked with Vesta to establish a dedicated manufacturing facility for our breast implants. On March 14, 2017, we announced that we had executed a definitive manufacturing agreement with Vesta for the manufacture and supply of our breast implants and that we had submitted a site-change pre-market approval, or PMA, supplement to the FDA for the manufacturing of our PMA-approved breast implants by Vesta. Vesta began manufacturing our breast products in October 2017 in order to build our inventory pending FDA approval of the PMA supplement. On January 30, 2018, we announced that the FDA granted approval of the PMA supplement for our contract manufacturer, Vesta, to manufacture our silicone gel breast implants. In support of the move to the Vesta manufacturing facility, we also implemented new manufacturing process improvements which, in consultation with the FDA, required three (3) additional submissions. These submissions were approved by the FDA on January 10, 2018, January 19, 2018 and April 17, 2018. With these latest approvals, we re-launched our breast implant business in April 2018 and intend to scale implant supply into the second half of 2018.

In addition, we offer BIOCORNEUM, an advanced silicone scar treatment, directly to physicians and the AlloX2, and Dernaspan lines of breast tissue expanders, as well as the Softspan line of general tissue expanders.

We sell our silicone gel breast implants and tissue expanders exclusively to Plastic Surgeons. We seek to provide Plastic Surgeons with differentiated services, including enhanced customer service offerings and a twenty year limited warranty that provides patients with cash reimbursement for certain out of pocket costs related to revision surgeries in a covered event; a lifetime no charge implant replacement program for covered ruptures; and the industry's first policy of no charge replacement implants to patients who experience covered capsular contracture, double capsule and late-forming seroma events within twenty years of the initial implant procedure.

miraDry Products

In July 2017, we completed our acquisition of miraDry, following which we began selling the miraDry System, the only FDA cleared device indicated to reduce underarm sweat, odor and hair of all colors through the precise and non-invasive delivery of microwave energy to the region where sweat glands reside. The energy generates heat at the dermal-fat interface which results in destruction of the sweat glands. At the same time, a continuous hydro-ceramic cooling system protects the superficial dermis and keeps the heat focused at the dermal-fat interface where the sweat glands reside. Because sweat glands do not regenerate after the procedure, we believe the results are lasting. Microwaves are the ideal technology as the energy can be focused directly at the dermal-fat interface where the glands reside.

The miraDry System has been cleared by the FDA as indicated for use in the treatment of primary axillary hyperhidrosis, or a condition characterized by abnormal sweating in excess of that required for regulation of body temperature, plus unwanted underarm hair removal, and permanent reduction of underarm hair of all colors for Fitzpatrick skin types I – IV. Permanent hair reduction is defined as long-term, stable reduction in the number of hairs regrowing when measured at 6, 9 and 12 months after the completion of a treatment regime. When used for the treatment of primary axillary hyperhidrosis, the miraDry System may reduce underarm odor. In addition, the miraDry System received CE mark approval for the treatment of primary axillary hyperhidrosis and approval in several other countries.

The miraDry System provides patients with a non-invasive and durable procedure to selectively destroy underarm sweat glands for both severely hyperhidrotic patients and those that are bothered by their underarm sweat. The miraDry System has been evaluated in clinical studies, which showed that the system reduced sweat in one or more procedures of approximately 60-minutes, allowing most patients to achieve immediately noticeable and durable results without the pain, expense, downtime, or repeat visits associated with surgical and minimally-invasive procedures. The sweat glands in the treated area are destroyed through targeted heating of the tissue, and because the body does not regenerate sweat glands, we believe the results will be lasting in most patients, although some patients may need to repeat the miraDry procedure to achieve the lasting results.

The miraDry System consists of a console and a handheld device which uses consumable single-use bioTips. The miraDry procedure is not technique-dependent, does not require significant training or skill for the healthcare provider, and the user-interface guides the provider through each step of the procedure for each treatment. We sell our miraDry System and consumable single-use bioTips only to physicians, consisting of dermatologists, plastic surgeons, aesthetic specialists and physicians specializing in the treatment of hyperhidrosis. Aesthetic specialists are physicians who elect to offer aesthetic procedures as a significant part of their practices but are generally not board-certified dermatologists or plastic surgeons. Physicians can market the miraDry procedure as a premium, highly-differentiated, non-surgical sweat reduction procedure. We are approved to sell the miraDry System in over 40 international markets outside of North America, including countries in Asia, Europe, the Middle East and South America.

The miraDry segment generated net sales of \$8.3 million and \$22.5 million for the three and nine months ended September 30, 2018, respectively. With the acquisition of miraDry, we expect net sales, cost of goods sold, sales and marketing, general and administrative, and research and development expenses to increase in 2018 when compared to 2017 and prior periods.

Intellectual Property

Our Breast Products patent portfolio presently consists of two (2) pending U.S. patent applications, as well as several in-licensed patent rights, and our miraDry patent portfolio presently consists of approximately twenty-one (21) granted or allowed U.S. patents, ninety-three (93) granted or allowed foreign counterparts patents, seven (7) pending or published U.S. patent applications, and thirty (30) pending or published foreign counterpart patent applications. Our Breast Products trademark portfolio presently consists of approximately twelve (12) worldwide registered trademarks and thirteen (13) pending worldwide trademark applications and our miraDry trademark portfolio presently consists of approximately ninety (90) worldwide registered trademarks and seven (7) pending worldwide trademark applications.

Components of Operating Results

Net Sales

We recognize revenue on breast implants and tissue expanders, net of sales discounts and estimated returns, as the customer has a standard six-month window to return purchased breast implants and tissue expanders. Our Breast Products segment net sales include sales of silicone gel breast implants, tissue expanders and BIOCORNEUM. We defer the value of our service warranty revenue and recognize it once all performance obligations have been met. Net sales for our miraDry segment for the three and nine months ended September 30, 2018 include net sales of the miraDry System and consumable bioTips, as a result of the acquisition of miraDry on July 25, 2017.

We expect that, in the future, our net sales will fluctuate on a quarterly basis due to a variety of factors, including seasonality of breast augmentation procedures and purchase of miraDry procedures. We believe that aesthetic procedures are subject to seasonal fluctuation due to patients planning their procedures leading up to the summer season and in the period around the winter holiday season.

Cost of Goods Sold and Gross Margin

Cost of goods sold consists primarily of costs of finished products purchased from our third party manufacturers, reserve for product assurance warranties, inventory fair market value adjustment, royalty costs, and warehouse and other related costs. With the acquisition of miraDry, cost of goods sold also consists of raw material, labor, overhead, and variable manufacturing costs associated with the manufacturing of the miraDry Systems and bioTips.

With respect to our supplier contracts, all our products and raw materials are manufactured under contracts with fixed unit costs.

We provide an assurance warranty on our silicone gel breast implants and a standard warranty on our miraDry Systems, handpieces and bioTips. The estimated warranty costs are recorded at the time of sale. Costs related to our service warranty are recorded when expense is incurred related to meeting our performance obligations. In addition, the inventory fair market value associated with purchase accounting adjustments and royalty costs related to both the SSP and miraDry acquisitions are recorded at the time of sale.

We expect our overall gross margin, which is calculated as net sales less cost of goods sold for a given period divided by net sales, to fluctuate in future periods primarily as a result of quantity of units sold, manufacturing price increases, the changing mix of products sold with different gross margins, warranty costs, overhead costs and targeted pricing programs.

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of salaries, bonuses, benefits, incentive compensation, stock-based compensation and travel for our sales, marketing and customer support personnel. Our sales and marketing expenses also include expenses for trade shows, our no charge customer shipping program for the Breast Products segment and no-charge product evaluation units for the Breast Products segment, as well as educational, promotional and marketing activities, including direct and online marketing. We expect our sales and marketing expenses to fluctuate in future periods as a result of headcount and timing of our marketing programs. However, we generally expect these costs will increase in absolute dollars.

Research and Development Expenses

Our research and development, or R&D, expenses primarily consist of clinical expenses, product development costs, regulatory expenses, consulting services, outside research activities, quality control and other costs associated with the development of our products and compliance with Good Clinical Practices, or cGCP, requirements. R&D expenses also include related personnel and consultant compensation and stock based compensation expense. We expense R&D costs as they are incurred.

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We expect our R&D expenses to vary as different development projects are initiated, including improvements to our existing products, expansions of our existing product lines, new product acquisitions and our clinical studies. However, we generally expect these costs will increase in absolute terms over time as we continue to expand our product portfolio and add related personnel.

General and Administrative Expenses

Our general and administrative, or G&A, expenses primarily consist of salaries, bonuses, benefits, incentive compensation and stock-based compensation for our executive, financial, legal, business development and administrative functions. Other G&A expenses include contingent consideration fair market value adjustments, outside legal counsel and litigation expenses, independent auditors and other outside consultants, corporate insurance, facilities and information technologies expenses.

We expect future G&A expenses to increase as we continue to build our finance, legal, information technology, human resources and other general administration resources to continue to advance the commercialization of our products. In addition, we expect to continue to incur G&A expenses in connection with operating as a public company, which may increase further when we are no longer able to rely on the “emerging growth company” exemption we are afforded under the Jumpstart Our Business Startups Act, or the JOBS Act.

Other Income (Expense), net

Other income (expense), net primarily consists of interest income, interest expense, changes in the fair value of common stock warrants and amortization of debt issuance costs associated with our Credit Agreements.

Income Taxes

Income tax expense consists of an estimate for income taxes based on the projected income tax expense for the period. We operate in several tax jurisdictions and are subject to taxes in each jurisdiction in which we conduct business. To date, we have incurred cumulative net losses and maintain a full valuation allowance on our net deferred tax assets due to the uncertainty surrounding realization of such assets.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in Note 2 of the “Notes to Financial Statements” in our audited financial statements included in the Annual Report. There have been no material changes to our critical accounting policies and estimates from those disclosed in the Annual Report, other than the implementation of ASU 2014-09 (Topic 606) Revenue from Contracts with Customers, as discussed in Note 3 of the unaudited condensed consolidated financial statements included in this Form 10-Q.

Recent Accounting Pronouncements

Please refer to Note 2 - Summary of Significant Accounting Policies in the notes to the unaudited condensed consolidated financial statements included in this Form 10-Q for information on recent accounting pronouncements and the expected impact on our unaudited condensed consolidated financial statements.

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Results of Operations

Comparison of the Three Months Ended September 30, 2018 and 2017

The following table sets forth our results of operations for the three months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018 2017 (In thousands)	
Statement of operations data		
Net sales	\$16,875	\$9,819
Cost of goods sold	6,398	3,484
Gross profit	10,477	6,335
Operating expenses		
Sales and marketing	15,254	7,981
Research and development	2,881	2,911
General and administrative	11,904	9,298
Total operating expenses	30,039	20,190
Loss from operations	(19,562)	(13,855)
Other income (expense), net		
Interest income	133	54
Interest expense	(953)	(409)
Other income (expense), net	(163)	(155)
Total other income (expense), net	(983)	(510)
Loss before income taxes	(20,545)	(14,365)
Income tax expense	—	16
Net loss	\$(20,545)	\$(14,381)

Net Sales

Net sales increased \$7.1 million, or 71.9%, to \$16.9 million for the three months ended September 30, 2018 as compared to \$9.8 million for the three months ended September 30, 2017. Net sales of our Breast Products segment was \$8.6 million, an increase of \$1.0 million for the three months ended September 30, 2018, as compared to \$7.7 million for the three months ended September 30, 2017, driven primarily by an increase in sales of Allox2 and Dermaspan breast tissue expanders. Net sales of our miraDry segment was \$8.3 million, an increase of \$6.1 million, as compared to \$2.2 million for the three months ended September 30, 2018, driven primarily by an increase in sales in miraDry Systems and consumable bioTips.

As of September 30, 2018, our U.S. sales organization included 80 sales representatives as compared to 53 sales representatives as of September 30, 2017. The increase is primarily attributed to the acquisition of miraDry and the subsequent headcount increase of the miraDry sales representatives. Additionally, we also sell our miraDry System in several international markets where we leverage a combination of distributor relationships and direct sales efforts.

Cost of Goods Sold and Gross Margin

Cost of goods sold increased \$2.9 million, or 83.6%, to \$6.4 million for the three months ended September 30, 2018, as compared to \$3.5 million for the three months ended September 30, 2017. The increase was primarily due to an increase in net sales.

The gross margins for the three months ended September 30, 2018 and 2017 were 62.1% and 64.5%, respectively. The decrease is primarily due to the acquisition of miraDry mid quarter on July 25, 2017, which carries a lower margin than Breast Products.

Sales and Marketing Expenses

Sales and marketing expenses increased \$7.3 million, or 91.1%, to \$15.3 million for the three months ended September 30, 2018, as compared to \$8.0 million for the three months ended September 30, 2017. The increase was primarily due to higher employee-related costs as a result of increased sales and headcount, and an increase in marketing expenses and initiatives.

Research and Development Expenses

R&D expenses were unchanged for the three months ended September 30, 2018 and 2017, due to an increase in stock-based compensation and employee-related expenses offset by a reduction in consulting fees.

General and Administrative Expenses

G&A expenses increased \$2.6 million, or 28.0%, to \$11.9 million for the three months ended September 30, 2018, as compared to \$9.3 million for the three months ended September 30, 2017. The increase is primarily related to an increase in stock-based compensation and variable compensation, payroll, consulting expenses, and contingent consideration fair value adjustments, offset by a decrease in legal expenses.

Other Income (Expense), net

Other income (expense), net for the three months ended September 30, 2018 and 2017 was primarily associated with expenses related to the change in fair value of warrants and interest and amortization of debt issuance costs associated with our Credit Agreements.

Income Tax Expense

Income tax expense is associated with a deferred tax liability associated with indefinite-lived intangible assets from the BIOCORNEUM acquisition and the tissue expander portfolio acquisition that cannot offset deferred tax assets. Income tax expense for the three months ended September 30, 2018 and 2017 was \$0 and \$16,000, respectively.

Comparison of the Nine Months Ended September 30, 2018 and 2017

The following table sets forth our results of operations for the nine months ended September 30, 2018 and 2017:

	Nine Months Ended	
	September 30,	
	2018	2017
	(In thousands)	
Statement of operations data		
Net sales	\$49,104	\$25,477
Cost of goods sold	19,154	8,427
Gross profit	29,950	17,050
Operating expenses		
Sales and marketing	45,990	21,100
Research and development	7,930	7,677
General and administrative	31,419	23,753
Legal settlement	—	10,000
Total operating expenses	85,339	62,530
Loss from operations	(55,389)	(45,480)
Other income (expense), net		
Interest income	214	112
Interest expense	(2,474)	(603)
Other income (expense), net	(347)	(151)
Total other income (expense), net	(2,607)	(642)
Loss before income taxes	(57,996)	(46,122)
Income tax expense	—	70
Net loss	\$(57,996)	\$(46,192)

Net Sales

Net sales increased \$23.6 million, or 92.7%, to \$49.1 million for the nine months ended September 30, 2018 as compared to \$25.5 million for the nine months ended September 30, 2017. Net sales of our Breast Products increased \$3.3 million to \$26.6 million for the nine months ended September 30, 2018, as compared to \$23.3 million for the nine months ended September 30, 2017, driven primarily by an increase in sales of our Allox2 and Dermapan breast tissue expanders and our BIOCORNEUM scar management product. Net sales of our miraDry segment increased \$20.4 million to \$22.5 million for the nine months ended September 30, 2018, as compared to \$2.2 million for the nine months ended September 30, 2017, due to the inclusion of nine months of activity in 2018 versus approximately two months of activity in 2017.

Cost of Goods Sold and Gross Margin

Cost of goods sold increased \$10.7 million, or 127.3%, to \$19.2 million for the nine months ended September 30, 2018, as compared to \$8.4 million for the nine months ended September 30, 2017. The increase was primarily due to an increase in net sales and the acquisition of miraDry on July 25, 2017. Cost of goods sold for our miraDry segment increased \$10.0 million to \$11.4 million for the nine months ended September 30, 2018, as compared to \$1.4 million for the nine months ended September 30, 2017, due to the inclusion of nine months of activity in 2018 versus approximately two months of activity in 2017.

The gross margins for the nine months ended September 30, 2018 and 2017 were 61.0% and 66.9%, respectively. The decrease is primarily due to the inclusion of miraDry, which carries a lower margin than Breast Products, for nine months in 2018 as compared to approximately two months in 2017.

Sales and Marketing Expenses

Sales and marketing expenses increased \$24.9 million, or 118.0%, to \$46.0 million for the nine months ended September 30, 2018, as compared to \$21.1 million for the nine months ended September 30, 2017. The increase is

primarily due to the addition of miraDry, higher employee-related costs as a result of increased sales and headcount, an increase in marketing expenses and an increase in marketing initiatives. Sales and marketing expense for our miraDry segment increased \$19.2 million to \$21.1 million for the nine months ended September 30, 2018, as compared to \$1.9 million for the nine months ended September 30, 2017, due to the inclusion of nine months of activity in 2018 versus approximately two months of activity in 2017.

Research and Development Expenses

Research and development expenses increased \$0.3 million, or 3.3%, to \$7.9 million for the nine months ended September 30, 2018, as compared to \$7.7 million for the nine months ended September 30, 2017. The increase was primarily due to the addition of miraDry, offset by a decrease in consulting expenses. Research and development expense for our miraDry segment increased \$1.0 million to \$1.5 million for the nine months ended September 30, 2018, as compared to \$0.5 million for the nine months ended September 30, 2017, due to the inclusion of nine months of activity in 2018 versus approximately two months of activity in 2017.

General and Administrative Expenses

G&A expenses increased \$7.7 million, or 32.3%, to \$31.4 million for the nine months ended September 30, 2018, as compared to \$23.8 million for the nine months ended September 30, 2017. The increase was primarily due to the addition of miraDry, an increase in consideration fair value adjustments, consulting expenses, stock-based compensation, payroll, and bad debt expense, offset by a decrease in legal expenses. G&A expenses for our miraDry segment increased \$3.9 million to \$4.9 million for the nine months ended September 30, 2018, as compared to \$1.0 million for the nine months ended September 30, 2017, due to the inclusion of nine months of activity in 2018 versus approximately two months of activity in 2017.

Legal Settlement Expenses

The Company had no legal settlement expenses for the nine months ended September 30, 2018. The \$10 million expense for the nine months ended September 30, 2017 was related to the settlement of the Silimed Litigation in 2017.

Other Income (Expense), net

Other income (expense), net for the nine months ended September 30, 2018 was primarily associated with expenses related to the warrants and interest and amortization of debt issuance costs associated with the Credit Agreements. Other income (expense), net for the nine months ended September 30, 2017 was primarily associated with expenses related to warrants and amortization of issuance costs associated with the Loan Agreement.

Income Tax Expense

Income tax expense is associated with a deferred tax liability associated with indefinite-lived intangible assets from the BIOCORNEUM acquisition and the tissue expander portfolio acquisition from SSP that cannot offset deferred tax assets. Income tax expense for the nine months ended September 30, 2018 and 2017 was \$0 and \$0.1 million, respectively.

Liquidity and Capital Resources

Since our inception, we have incurred significant net operating losses and anticipate that our losses will continue in the near term. We expect our operating expenses will continue to grow as we expand our operations. We will need to

generate significant net sales to achieve profitability. To date, we have funded our operations primarily with proceeds from the sales of preferred stock, borrowings under our term loans, sales of our products since 2012, and the proceeds from the sale of our common stock in public offerings.

In November 2014, we completed our IPO, raising approximately \$77.0 million in net proceeds. In September 2015, we completed a follow-on public offering of common stock raising approximately \$61.4 million in net proceeds.

On March 13, 2017, we entered into the SVB Loan Agreement. Under the terms of the SVB Loan Agreement, SVB made available to us a \$15.0 million Revolving Line of Credit and a \$5.0 million term loan. On July 25, 2017, we repaid in full our outstanding indebtedness under the SVB Loan Agreement and the agreement was terminated and replaced with the Credit Agreements with MidCap.

On July 25, 2017, we borrowed \$25.0 million pursuant to the Term Loan Credit Agreement with MidCap and the other lenders party thereto. We used the proceeds (i) to repay in full our then-existing indebtedness under the SVB Loan Agreement, which totaled approximately \$5.0 million, (ii) to pay fees and expenses in connection with the foregoing and (iii) for general corporate purposes. The Term Loan Credit Agreement provides for (i) the Closing Date Term Loan, (ii) until March 31, 2018, an additional \$10.0 million term loan facility subject to the satisfaction of certain conditions, including FDA certification of the manufacturing facility operated by Vesta and (iii) an additional \$5.0 million term loan facility subject to the satisfaction of certain conditions, including evidence that the Company's Net Revenue (as defined in the Term Loan Credit Agreement) for the past 12 months was greater than or equal to \$75.0 million. On April 18, 2018, we amended the Term Loan Credit Agreement with MidCap pursuant to which MidCap agreed to adjust the date by which we must obtain FDA approval of our PMA supplement in order to access the March 2018 Term Loan until April 30, 2018. Upon FDA approval in April 2018, the \$10.0 million March 2018 Term Loan was funded. In addition, on July 25, 2017, we also entered into a Revolving Credit Agreement with MidCap and the other lenders party thereto. The amount available to be drawn under the Revolving Credit Agreement is based on a Borrowing Base equal to 85% of the net collectible value of eligible accounts receivable plus 40% of eligible finished goods inventory, provided that availability from eligible finished goods inventory does not exceed 20% of the Borrowing Base. We may make (subject to the applicable borrowing base at the time) and repay borrowings from time to time under the Revolving Credit Agreement until the maturity of the facility on December 1, 2021.

See Note 10 to the condensed consolidated financial statements for a full description of our long-term debt and revolving line of credit.

In February 2018, we entered into an At-The-Market Equity Offering Sales Agreement with Stifel, Nicolaus & Company, Incorporated, or Stifel, as sales agent pursuant to which we may sell, from time to time, through Stifel shares of our common stock having an aggregate gross offering price of up to \$50 million. As of September 30, 2018, we have not sold any common stock pursuant to the sales agreement.

On May 7, 2018, we completed an underwritten follow-on public offering in which we sold 7,407,408 shares of common stock at \$13.50 per share, as well as 1,111,111 additional shares of common stock pursuant to the full exercise of the over-allotment option granted to the underwriters. Net proceeds to the Company were approximately \$107.6 million after deducting underwriting discounts and commissions of \$6.9 million and offering expenses of approximately \$0.5 million.

As of September 30, 2018, we had \$103.0 million in cash and cash equivalents. Our historical cash outflows have primarily been associated with research and development activities, activities relating to commercialization and increases in working capital, including the expansion of our sales force and marketing programs. In addition, we have used cash to fund the acquisitions of miraDry, BIOCORNEUM and our tissue expander portfolio.

To fund our ongoing operating and capital needs, we may need to raise additional equity or debt capital. We believe we have sufficient capital resources to continue as a going concern through the next twelve months.

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Cash Flows

The following table shows a summary of our cash flows (used in) provided by operating, investing and financing activities for the periods indicated:

	Nine Months Ended	
	September 30,	
	2018	2017
Net cash (used in) provided by:		
Operating activities	\$(41,418)	\$(35,702)
Investing activities	(414)	(19,628)
Financing activities	118,252	25,759
Net change in cash and cash equivalents	\$76,420	\$(29,571)

Cash used in operating activities

Net cash used in operating activities was \$41.4 million during the nine months ended September 30, 2018, as compared to \$35.7 million during the nine months ended September 30, 2017. The increase in cash used in operating activities between the nine months ended September 30, 2018 and 2017 was primarily associated with higher net loss for the nine months ended September 30, 2018, an increase in accounts receivable due to the timing of sales and collections, an increase in inventory following the FDA's approval of our manufacturing site-change supplement and three PMA submissions in January and April 2018 in connection with the Vesta facility as compared to the nine months ended September 30, 2017, partially offset by an increase in accounts payable and accrued and other liabilities due to the timing of payments.

Cash used in investing activities

Net cash used in investing activities was \$0.4 million during the nine months ended September 30, 2018 as compared to \$19.6 million during the nine months ended September 30, 2017. The decrease in cash used in investing activities between the nine months ended September 30, 2018 and 2017 was due to a decrease in business acquisitions.

Cash provided by financing activities

Net cash provided by financing activities was \$118.3 million during the nine months ended September 30, 2018 as compared to \$25.8 million during the nine months ended September 30, 2017. The increase in cash provided by financing activities was primarily the result of proceeds from the public follow-on offering and proceeds from borrowings under the Credit Agreements for the nine months ended September 30, 2018.

Our liquidity position and capital requirements are subject to a number of factors. For example, our cash inflow and outflow may be impacted by the following:

- the ability of the Vesta facility to meet capacity to meet customer requirements;
- net sales generated by our Breast Products and miraDry segments, and any other future products that we may develop and commercialize;
- costs associated with expanding our sales force and marketing programs;
- cost associated with developing and commercializing our proposed products or technologies;

• expenses we incur in connection with potential litigation or governmental investigations;
• cost of obtaining and maintaining regulatory clearance or approval for our current or future products;
• cost of ongoing compliance with regulatory requirements, including compliance with Sarbanes-Oxley;

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- anticipated or unanticipated capital expenditures; and
- unanticipated G&A expenses.

Our primary short-term capital needs, which are subject to change, include expenditures related to:

- support of our sales and marketing efforts related to our current and future products;
- new product acquisition and development efforts;
- facilities expansion needs;
- investment in inventory required to meet customer demands; and
- expenses we incur in connection with defending against litigation.

Although we believe the foregoing items reflect our most likely uses of cash in the short-term, we cannot predict with certainty all of our particular short-term cash uses or the timing or amount of cash used. If cash generated from operations is insufficient to satisfy our working capital and capital expenditure requirements, we may be required to sell additional equity or debt securities or obtain credit facilities. Additional capital, if needed, may not be available on satisfactory terms, if at all. Furthermore, any additional equity financing may be dilutive to stockholders, and debt financing, if available, may include restrictive covenants. For a discussion of other factors that may impact our future liquidity and capital funding requirements, see “Risk Factors — Risks Related to Our Financial Results.”

Contractual Obligations and Commitments

As of September 30, 2018, except as discussed below, there have been no material changes to our contractual obligations and commitments outside the ordinary course of business from those disclosed under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations” in the Annual Report, except as it relates to the timing of payments and interest under our obligations under our Credit Agreements. See Note 10 for further discussion regarding our long-term debt and revolving loan.

Scheduled contractual obligations for the future payments of our term loan debt obligations as of September 30, 2018 were as follows (in thousands):

Payments Due by Period