Sientra, Inc.
Form 10-K/A
April 30, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2017

OR

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

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,

Santa Barbara, California	**93117**
(Address of Principal Executive Offices)	**(Zip Code)**

(805) 562-3500

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

The aggregate market value of registrant s common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant s common stock on June 30, 2017 as reported by NASDAQ Global Select Market on such date was approximately $108,772,000. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 9, 2018, there were 19,643,517 shares of the registrant s common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement relating to its 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this Amendment) amends the Annual Report on Form 10-K of Sientra, Inc. for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission on March 13, 2018 (the Original Filing). This Amendment No. 1 is being filed solely to provide a corrected version of KPMG LLP s report contained in Part IV, Item 15 of the Original Filing to replace the original version provided by KPMG LLP. The corrected KPMG LLP report includes language that was inadvertently omitted from the previously filed version that confirms the Company s independent registered accounting firm did not audit its internal control over financial reporting. These changes do not in any way change the conclusions expressed by KPMG LLP in the original report, or any other disclosure included in the Original Filing.

In accordance with Rule 12b-15 of the Securities Exchange Act of 1934, as amended, this Amendment includes new certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, dated as of the filing date of this Amendment.

This Amendment speaks as of the date of the Original Filing, does not reflect events that may have occurred after the date of the Original Filing and does not modify or update in any way the disclosures made in the Original Filing, except as described above. This Amendment should be read in conjunction with the Original Filing and with the Company s subsequent filings with the Securities and Exchange Commission.

Table of Contents

Table of Contents

Table of Contents

PART II

Item 8. Financial Statements and Supplementary Data

The financial statements required to be filed pursuant to this Item 8 are appended to this report beginning on page F-1. An index of those financial statements is included in Part IV, Item 15 below.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statements and Schedule

(a)(1) Financial Statements.

The following financial statements are presented in response to Part II, Item 8, under the heading Financial Statements and Supplementary Data :

Sientra, Inc.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

(a)(2) Financial Statement Schedule.

All schedules have been omitted because they are not required or because the required information is given in the Financial Statements or Notes thereto.

(a)(3) Exhibits.

List of Exhibits required by Item 601 of Regulation S-K. See Item 15(b) below.

(b)

List of Exhibits required by Item 601 of Regulation S-K.

EXHIBIT INDEX

		Incorporated by Reference				
Exhibit Number	**Exhibit Description**	**Form**	**SEC File No.**	**Exhibit**	**Filing**	**Filed Herewith**
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	S-1/A	333-198837	3.2	October 20, 2014	
3.2	Amended and Restated Bylaws of the Registrant.	S-1/A	333-198837	3.4	October 20, 2014	

4.1	Form of Common Stock Certificate of the Registrant.	S-1/A	333-198837	4.1	October 20, 2014

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing	Filed Herewith
4.2	Conversion and Amendment Agreement by and among the Registrant and certain of its stockholders, dated October 10, 2014.	S-1/A	333-198837	4.11	October 20, 2014	
4.3	Amended and Restated Investor Rights Agreement, dated March 28, 2012, by and among Sientra, Inc., and the investors and stockholders party thereto.	S-1	333-198837	4.2	September, 19 2014	
4.4	Warrant to Purchase Stock issued to Oxford Finance LLC, dated January 17, 2013.	S-1	333-198837	4.3	September, 19 2014	
4.5	Warrant to Purchase Stock issued to Oxford Finance LLC, dated January 17, 2013.	S-1	333-198837	4.4	September, 19 2014	
4.6	Warrant to Purchase Stock issued to Oxford Finance LLC, dated August 1, 2013.	S-1	333-198837	4.5	September, 19 2014	
4.7	Warrant to Purchase Stock issued to Oxford Finance LLC, dated August 1, 2013.	S-1	333-198837	4.6	September, 19 2014	
4.8	Warrant to Purchase Stock issued to Oxford Finance LLC, dated December 13, 2013.	S-1	333-198837	4.7	September, 19 2014	
4.9	Warrant to Purchase Stock issued to Oxford Finance LLC, dated December 13, 2013.	S-1	333-198837	4.8	September, 19 2014	
10.1#	Form of Indemnity Agreement by and between Sientra, Inc. and its directors and officers.	S-1	333-198837	10.1	September, 19 2014	
10.2#	2007 Equity Incentive Plan, as amended, and forms of award agreements thereunder.	S-1	333-198837	10.2	September, 19 2014	
10.3#	2014 Equity Incentive Plan and forms of award agreements thereunder.	S-1/A	333-198837	10.3	October 20, 2014	
10.4#	2014 Non-Employee Director Compensation Policy.	S-1	333-198837	10.4	September, 19 2014	
10.5#	2014 Employee Stock Purchase Plan.	S-1/A	333-198837	10.5	October 20, 2014	

5

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing	Filed Herewith
10.6	Multi-Purpose Commercial Building Lease, dated March 28, 2014, by and between Sientra, Inc. and Fairview Business Center, L.P.	S-1	333-198837	10.6	September, 19 2014	
10.7+	Amended and Restated Exclusivity Agreement, dated April 4, 2007, by and between Sientra, Inc. (formerly, Juliet Medical, Inc.) and Silimed Industria de Implantes Ltda. (formerly, Silimed-Silicone e Instrumental Medico-Cirugio e Hospitalar Ltda.).	S-1/A	333-198837	10.8	October, 20 2014	
10.8	Amendment No. 1 to Amended and Restated Exclusivity Agreement, dated May 12, 2010, by and between Sientra, Inc. (formerly, Juliet Medical, Inc.) and Silimed Industria de Implantes Ltda. (formerly, Silimed-Silicone e Instrumental Medico-Cirugio e Hospitalar Ltda.).	S-1	333-198837	10.9	September, 19 2014	
10.9	Amendment No. 2 to Amended and Restated Exclusivity Agreement, dated November 8, 2013, by and between Sientra, Inc. (formerly, Juliet Medical, Inc.) and Silimed Industria de Implantes Ltda. (formerly, Silimed-Silicone e Instrumental Medico-Cirugio e Hospitalar Ltda.).	S-1	333-198837	10.10	September, 19 2014	
10.10#	Amended and Restated Employment Agreement by and between Sientra, Inc. and Charles Huiner, dated September 22, 2016.	10-Q	001-36709	10.1	November 9, 2016	
10.11#	Amended and Restated Employment Agreement by and between Sientra, Inc. and Matthew Pigeon, dated September 22, 2016.	10-Q	001-36709	10.2	November 9, 2016	

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing	Filed Herewith
10.12#	Separation Agreement by and between Sientra, Inc. and Matthew Pigeon, dated November 7, 2016.	10-Q	001-36709	10.4	November 9, 2016	
10.13#	Employment Agreement by and between Sientra, Inc. and Patrick F. Williams, dated October 26, 2016.	10-Q	001-36709	10.3	November 9, 2016	
10.14#	Employment Agreement by and between Sientra, Inc. and Jeffrey Nugent, dated November 12, 2015.	10-Q	001-36709	10.3	November 16, 2015	
10.15#	Amendment to Amended and Restated Employment Agreement by and between Sientra, Inc. and Charles Huiner, dated February 7, 2017.	10-K	001-36709	10.16	March 14, 2017	
10.16#	Amendment No. 2 to Amended and Restated Employment Agreement by and between Sientra, Inc. and Charles Huiner, dated March 10, 2017.	10-K	001-36709	10.17	March 14, 2017	
10.17#	Sientra, Inc. Inducement Plan and forms of award agreements thereunder.	10-K	001-36709	10.20	March 10, 2016	
10.18+	Manufacturing Agreement by and between the Registrant and Vesta Intermediate Funding, Inc., a Lubrizol LifeSciences Company, dated March 10, 2017.	10-Q	001-36709	10.1	May 9, 2017	
10.19	Loan and Security Agreement by and between the Registrant and Silicon Valley Bank, dated March 13, 2017.	10-Q	001-36709	10.2	May 9, 2017	
10.20#	Amendment to Employment Agreement by and between the Registrant and Jeffrey M. Nugent, dated May 8, 2017.	10-Q	001-36709	10.3	May 9, 2017	

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing	Filed Herewith
10.21	Credit and Security Agreement (Revolving Loan) by and between the Registrant and the other borrowers thereto and Midcap Financial Trust and the additional lenders thereto, dated July 25, 2017.	10-Q	001-36709	10.1	August 9, 2017	
10.22	Credit and Security Agreement (Term Loan) by and between the Registrant and the other borrowers thereto and Midcap Financial Trust and the additional lenders thereto, dated July 25, 2017.	10-Q	001-36709	10.2	August 9, 2017	
10.23#	Amended and Restated Consulting Agreement by and between Registrant and Keith J. Sullivan, dated August 4, 2017.	10-Q	001-36709	10.3	August 9, 2017	
10.24	Assignment and License Agreement, dated December 31, 2008, by and between Miramar Labs, Inc. and The Foundry, Inc.	S-1	333-214121	10.8	October 14, 2016	
10.25	Assignment and License Clarification Letter, dated June 10, 2010, by and between Miramar Labs, Inc. and The Foundry, LLC.	S-1	333-214121	10.9	October 14, 2016	
10.26	Asset Purchase Agreement, dated January 18, 2008, by and between Miramar Labs, Inc. and Jan Wallace.	S-1	333-214121	10.10	October 14, 2016	
10.27	Lease Agreement, dated December 16, 2013, by and between Miramar Labs, Inc. and DWF III Walsh Bowers, LLC.	S-1	333-214121	10.15	October 14, 2016	
10.28+	Supply Agreement dated, November 13, 2014, by and between Miramar Labs, Inc. and Broadband Wireless, LLC.	S-1	333-214121	10.23	October 14, 2016	
10.29+	Contract Manufacturing Service Agreement dated, November 6, 2012, by and between Miramar Labs, Inc. and Healthcare Technology International Limited.	S-1	333-214121	10.24	October 14, 2016	

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing	Filed Herewith
10.30	At-The-Market Equity Offering Sales Agreement, dated February 20, 2018, by and between Sientra, Inc. and Stifel, Nicolaus & Company, Incorporated.	8-K	001-36709	10.1	February 20, 2018	
10.31#	Strategic Advisory Consulting Agreement, dated March 9, 2018, by and between Sientra, Inc., and Philippe A. Schaison.	10-K	001-36709	10.31	March 13, 2018	
10.32#	Second Amended and Restated Consulting Agreement by and between Registrant and Keith J. Sullivan, dated March 9, 2018.	10-K	001-36709	10.32	March 13, 2018	
10.33#	Second Amendment to Employment Agreement by and between Registrant and Jeffrey M. Nugent, dated March 13, 2018.	10-K	001-36709	10.33	March 13, 2018	
21.1	List of significant subsidiaries of the registrant.	10-K	001-36709	21.1	March 13, 2018	
23.1	Consent of KPMG LLP, an independent registered public accounting firm.					X
24.1*	Power of Attorney (included in signature page to this Annual Report on Form 10-K).	10-K	001-36709	N/A	March 13, 2018	
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.2	Certification of Principal Financial Officer pursuant to Rule 13a -14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing	Filed Herewith
32.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS*	XBRL Instance Document.	10-K	001-36709	101.INS	March 13, 2018	
101.SCH*	XBRL Taxonomy Extension Schema Document.	10-K	001-36709	101.SCH	March 13, 2018	
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.	10-K	001-36709	101.CAL	March 13, 2018	
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.	10-K	001-36709	101.DEF	March 13, 2018	
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.	10-K	001-36709	101.LAB	March 13, 2018	
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.	10-K	001-36709	101.PRE	March 13, 2018	

+ Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.
# Indicates management contract or compensatory plan, contract, or agreement.
* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

Sientra, Inc.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Sientra, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Sientra, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule II (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company s recurring losses from operations, insufficient cash flows generated from operations, potential violations of financial covenants and need to obtain additional capital raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

(signed) KPMG LLP

We have served as the Company s auditor since 2014.

Los Angeles, California
March 13, 2018

Table of Contents

Sientra, Inc.

Consolidated Balance Sheets

(in thousands, except per share data)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 26,588	$ 67,212
Accounts receivable, net of allowances of $4,816 and $4,329 at December 31, 2017 and December 31, 2016, respectively	6,569	3,082
Inventories, net	20,896	18,484
Insurance recovery receivable	39	9,375
Prepaid expenses and other current assets	1,473	1,852
Total current assets	55,565	100,005
Property and equipment, net	4,763	2,986
Goodwill	12,507	4,878
Other intangible assets, net	18,803	6,186
Other assets	575	228
Total assets	$ 92,213	$ 114,283
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 24,639	$
Accounts payable	5,811	3,555
Accrued and other current liabilities	13,474	6,507
Legal settlement payable	1,000	10,900
Customer deposits	5,423	6,559
Total current liabilities	50,347	27,521
Deferred and contingent consideration	12,597	1,637
Warranty reserve and other long-term liabilities	1,646	1,508
Total liabilities	64,590	30,666
Commitments and contingencies (Note 11)		
Stockholders equity:		
Preferred stock, $0.01 par value Authorized 10,000,000 shares; none issued or outstanding		
Common stock, $0.01 par value Authorized 200,000,000 shares; issued 19,474,702 and 18,671,409 and outstanding 19,401,975 and 18,598,682 shares	194	186

at December 31, 2017 and December 31, 2016 respectively		
Additional paid-in capital	307,159	299,133
Treasury stock, at cost (72,727 shares at December 31, 2017 and December 31, 2016)	(260)	(260)
Accumulated deficit	(279,470)	(215,442)
Total stockholders equity	27,623	83,617
Total liabilities and stockholders equity	$ 92,213	$ 114,283

See accompanying notes to the consolidated financial statements.

Table of Contents

Sientra, Inc.

Consolidated Statements of Operations

(in thousands, except per share data)

	Year Ended December 31,		
	2017	**2016**	**2015**
Net sales	$ 36,542	$ 20,734	$ 38,106
Cost of goods sold	14,171	6,880	10,654
Gross profit	22,371	13,854	27,452
Operating expenses:			
Sales and marketing	33,911	20,607	25,762
Research and development	9,813	9,704	7,199
General and administrative	31,537	21,959	18,738
Legal settlement	10,000	1,618	
Goodwill impairment			14,278
Total operating expenses	85,261	53,888	65,977
Loss from operations	(62,890)	(40,034)	(38,525)
Other income (expense), net:			
Interest income	172	63	32
Interest expense	(1,232)	(98)	(3,097)
Other income (expense), net	(95)	(36)	360
Total other income (expense), net	(1,155)	(71)	(2,705)
Loss before income taxes	(64,045)	(40,105)	(41,230)
Income tax (benefit) expense	(17)	61	
Net loss	$ (64,028)	$ (40,166)	$ (41,230)
Basic and diluted net loss per share attributable to common stockholders	$ (3.34)	$ (2.20)	$ (2.61)
Weighted average outstanding common shares used for net loss per share attributable to common stockholders:			
Basic and diluted	19,159,057	18,233,177	15,770,972

See accompanying notes to the consolidated financial statements.

Table of Contents

Sientra, Inc.

Consolidated Statements of Stockholders Equity

(in thousands, except per share data)

	Preferred stock		Common stock		Treasury stock		Additional paid-in		Total stockholders
	Shares	Amount	Shares	Amount	Shares	Amount	capital	Accumulated deficit	equity
Balances at December 31, 2014	$		14,985,704	$ 150	72,727	$ (260)	229,795	$ (134,046)	$ 95,639
Proceeds from follow-on offering, net of costs			3,000,000	30			61,367		61,397
Employee stock-based compensation expense							2,382		2,382
Stock option exercises			36,189				119		119
Employee stock purchase program (ESPP)			44,250				564		564
Net loss								(41,230)	(41,230)
Balances at December 31, 2015	$		18,066,143	$ 180	72,727	$ (260)	$ 294,227	$ (175,276)	$ 118,871
Employee stock-based compensation expense							3,236		3,236
Stock option exercises			478,099	5			918		923
Employee stock purchase program (ESPP)			122,667	1			752		753
Vested restricted stock			4,500						
Net loss								(40,166)	(40,166)
Balances at December 31, 2016	$		18,671,409	$ 186	72,727	$ (260)	$ 299,133	$ (215,442)	$ 83,617
Employee stock-based compensation expense							6,766		6,766
Stock option exercises			480,236	5			1,341		1,346
Employee stock purchase program (ESPP)			108,081	1			646		647
Vested restricted stock			293,910	3			(3)		
Shares withheld for tax obligations on vested RSUs			(78,934)	(1)			(724)		(725)

Net loss						(64,028)	(64,028)
Balances at December 31, 2017	$	19,474,702	$ 194	72,727	$ (260)	$ 307,159	$ (279,470)	$ 27,623

See accompanying notes to the consolidated financial statements.

Table of Contents

Sientra, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net loss	$ (64,028)	$ (40,166)	$ (41,230)
Adjustments to reconcile net loss to net cash used in operating activities:			
Goodwill impairment			14,278
Depreciation and amortization	3,034	1,177	318
Provision for doubtful accounts	493	437	233
Provision for warranties	294	71	385
Provision for inventory	3,125	1,323	469
Amortization of acquired inventory step-up	999	61	
Change in fair value of warrants	95	39	(360)
Change in fair value of deferred and contingent consideration	1,025	37	
Non-cash portion of debt extinguishment loss	17		
Amortization of debt discount and issuance costs	140		
Non-cash interest expense	1	3	1,386
Stock-based compensation expense	6,766	3,236	2,382
Loss on disposal of property and equipment	25	124	
Deferred income taxes	(21)	61	
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(1,890)	927	715
Inventories	527	2,390	(898)
Prepaid expenses, other current assets and other assets	674	(529)	147
Insurance recovery receivable	9,336	(9,375)	
Accounts payable	1,290	(564)	1,546
Accrued and other liabilities	3,218	(1,422)	1,571
Legal settlement payable	(9,900)	10,900	
Customer deposits	(1,136)	(3,160)	874
Net cash used in operating activities	(45,916)	(34,430)	(18,184)
Cash flows from investing activities:			
Purchase of property and equipment	(1,864)	(1,126)	(1,128)
Business acquisitions, net of cash acquired	(18,455)	(11,709)	
Net cash used in investing activities	(20,319)	(12,835)	(1,128)
Cash flows from financing activities:			
Proceeds from exercise of stock options	1,346	923	119

Proceeds from issuance of common stock under ESPP	647	753	564
Tax payments related to shares withheld for vested restricted stock units (RSUs)	(725)		
Proceeds from issuance of common stock, net of underwriters discount			62,040
Deferred equity issuance costs, IPO			(71)
Deferred equity issuance costs, follow-on offering			(643)
Repayment of long-term debt			(26,625)
Gross borrowings under the Term Loan	25,000		
Gross borrowings under the Revolving Line of Credit	5,000		
Repayment of the Revolving Line of Credit	(5,000)		
Deferred financing costs	(657)		
Net cash provided by financing activities	25,611	1,676	35,384
Net decrease in cash and cash equivalents	(40,624)	(45,589)	16,072
Cash and cash equivalents at:			
Beginning of period	67,212	112,801	96,729
End of period	$ 26,588	$ 67,212	$ 112,801
Supplemental disclosure of cash flow information:			
Interest paid	$ 870	$ 96	$ 1,884
Supplemental disclosure of non-cash investing and financing activities:			
Property and equipment in accounts payable and accrued liabilities	1,088	939	22
Acquisition of business, deferred and contingent consideration obligations at fair value	10,912	1,600	
Forgiveness of SVB Loan commitment fee	750		
Accrued deferred financing costs	6		

See accompanying notes to the consolidated financial statements.

Table of Contents

Sientra, Inc.

Notes to the Consolidated Financial Statements

(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, 200 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) Follow-on Offering

On September 23, 2015, the Company closed a follow-on public offering, whereby it sold 3,000,000 shares of its common stock, at a price to the public of $22.00 per share. The Company received net proceeds from the follow-on offering of approximately $61.4 million, after deducting underwriting discounts and commissions of $4.0 million and offering expenses of approximately $0.6 million.

(c) 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.

(d) 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 PMA supplement to the FDA for the manufacturing of the Company s PMA-approved breast implants by Vesta. 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 their 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 supplements. In addition to approving the manufacturing site-change supplement, the FDA has approved two (2) of these three (3) process enhancement supplements, while requesting additional information for the third submission. The Company continues to work closely with the FDA to address their information requests related to this third and final outstanding submission in order to resolve these matters in a timely manner.

Table of Contents

(e) Regulatory Inquiries Regarding Products Manufactured by Silimed

There have been regulatory inquiries related to medical devices manufactured by Silimed Indústria de Implantes Ltda. (formerly, Silimed-Silicone e Instrumental Medico-Cirugio e Hospitalar Ltda.), or Silimed, the Company s former sole source contract manufacturer for its silicone gel breast implants. Following extensive independent, third-party testing and analyses of its devices manufactured by Silimed, which tests indicated no significant safety concerns with the use of Silimed s products, the Company lifted the temporary hold on the sale of such devices. While the Company continues to sell its remaining inventory of devices manufactured by Silimed, its existing manufacturing contract with Silimed expired on its terms in April 2017 and the Company did not renew the contract.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Assets and liabilities which are subject to significant judgment and use of estimates include the allowance for doubtful accounts, sales return reserves, provision for warranties, valuation of inventories, recoverability of long-lived assets, valuation allowances with respect to deferred tax assets, useful lives associated with property and equipment and finite lived intangible assets, and the valuation and assumptions underlying stock-based compensation and other equity instruments. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities. In addition, the Company engages the assistance of valuation specialists in concluding on fair value measurements in connection with stock-based compensation and other equity instruments.

(b) Going Concern

Since inception, the Company has incurred net losses. During the years ended December 31, 2017, 2016 and 2015 the Company incurred net losses of $64.0 million, $40.2 million and $41.2 million, respectively. The Company used $45.9 million of cash in operations for the year ended December 31, 2017, $34.4 million for the year ended December 31, 2016 and $18.2 million for the year ended December 31, 2015. At December 31, 2017 and 2016 the Company had an accumulated deficit of $279.5 million and $215.4 million, respectively. At December 31, 2017, the Company had cash and cash equivalents of $26.6 million.

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. The Company has incurred recurring losses from operations and cash outflows from operating activities that raise substantial doubt about its ability to continue as a going concern. In addition, while the Company was in compliance with the financial covenants in its credit agreement with MidCap Financial Trust at December 31, 2017, given the potential violations of those covenants during fiscal year 2018, the Company has classified the debt as current in the consolidated balance sheet at December 31, 2017. Management has taken and is taking actions to improve our liquidity. For example, the Company has the ability to receive a $10.0 million term loan pursuant to our credit agreement with MidCap Financial Trust, upon receipt of FDA certifications of the manufacturing facility operated by Vesta by March 31, 2018. In addition, in February 2018, the Company entered into an At-The-Market Equity Offering Sales Agreement with Stifel, Nicolaus & Company, Incorporated 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 million. In addition,

the Company may raise additional capital through the sale of equity securities and incremental debt financing. While there can be no assurances that the Company will be successful in obtaining the level of financing needed for its operations, the Company believes it is probable that the actions taken, together with any additional equity or debt financing the Company may pursue, will be sufficient to address liquidity needs and alleviate the substantial doubt about the Company s ability to continue as a going concern for a reasonable period of time. If the Company is unsuccessful in raising capital, it may need to reduce activities, curtail or cease certain operations.

Table of Contents

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist primarily of cash in checking accounts and interest-bearing money market accounts.

(d) Concentration of Credit and Supplier Risks

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. The Company s cash and cash equivalents are deposited in demand accounts at a financial institution that management believes is creditworthy. The Company is exposed to credit risk in the event of default by this financial institution for cash and cash equivalents in excess of amounts insured by the Federal Deposit Insurance Corporation, or FDIC. Management believes that the Company s investments in cash and cash equivalents are financially sound and have minimal credit risk and the Company has not experienced any losses on its deposits of cash and cash equivalents.

The Company relies on a limited number of third-party manufacturers for the manufacturing and supply of its products. This could result in the Company not being able to acquire the inventory needed to meet customer demand, which would result in possible loss of sales and affect operating results adversely.

(e) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and customer deposits are reasonable estimates of their fair value because of the short maturity of these items. The fair value of the common stock warrant liability, deferred and contingent consideration are discussed in Note 2. The fair value of the debt is based on the amount of future cash flows associated with the instrument discounted using the Company s market rate. As of December 31, 2017, the carrying value of the debt is presented as a current liability of $24.6 million, representing the principal obligations, net of debt issuance costs, owed under the term loan.

(f) 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

Table of Contents

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 deferred consideration and 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 from SSP and the deferred and 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 deferred consideration and 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 December 31, 2017 and 2016 and indicate the level of the fair value hierarchy utilized to determine such fair value (in thousands):

	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 deferred consideration			1,255	1,255
Liability for contingent consideration			12,319	12,319
	$		13,768	13,768

	Fair Value Measurements as of December 31, 2016 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for common stock warrants	$		99	99
Liability for deferred consideration			395	395
Liability for contingent consideration			1,242	1,242
	$		1,736	1,736

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

Table of Contents

Warrant Liability		
Balance, December 31, 2016	$	99
Fair value of warrants to be issued upon borrowing under the SVB Loan Agreement (Note 5)		88
Warrants extinguished upon termination of SVB Loan Agreement		(88)
Change in fair value through December 31, 2017		95
Balance, December 31, 2017	$	194
Deferred Consideration Liability		
Balance, December 31, 2016	$	395
Initial fair value of acquisition-related deferred consideration		966
Change in fair value of deferred consideration		(106)
Balance, December 31, 2017	$	1,255
Contingent Consideration Liability		
Balance, December 31, 2016	$	1,242
Initial fair value of acquisition-related contingent consideration		9,946
Change in fair value of contingent consideration		1,131
Balance, December 31, 2017	$	12,319

In connection with the acquisition of miraDry on July 25, 2017, contingent consideration of up to an aggregate of $14.0 million may be payable upon achieving certain future sales milestones and had a fair value of $10.4 million at December 31, 2017.

In connection with the acquisition of the tissue expander portfolio from SSP on November 2, 2016, contingent consideration of up to an aggregate of $2.0 million may be payable upon achieving certain future sales milestones and had a fair value of $1.8 million and $1.1 million at December 31, 2017 and 2016, respectively.

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

(g) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the asset, generally three to five years. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the related asset. Upon retirement or sale of an asset, the cost and related accumulated depreciation or amortization are removed from the consolidated balance sheet and any resulting gain or loss is reflected in operations in the period realized. Maintenance and repairs are charged to operations as incurred.

(h) Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets of purchased businesses. Goodwill is not amortized, but instead is subject to impairment tests on at least an annual basis and whenever

circumstances suggest that goodwill may be impaired. After the acquisition of miraDry, management began evaluating the Company as two reporting units, Breast Products and miraDry. 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 more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value.

Table of Contents

The Company tests indefinite-lived intangible assets for impairment on at least an annual basis and whenever circumstances suggest the assets may be impaired. The Company s annual test for impairment is performed as of October 1 of each fiscal year. If indicators of impairment are present, the Company evaluates the carrying value of the intangible assets in relation to estimates of future undiscounted cash flows. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the difference. The Company also evaluates the remaining useful life of an indefinite-lived intangible asset to determine whether events and circumstances continue to support an indefinite useful life.

Judgments about the recoverability of purchased finite-lived intangible assets are made whenever events or changes in circumstance indicate that impairment may exist. Each fiscal year the Company evaluates the estimated remaining useful lives of purchased intangible assets and whether events or changes in circumstance warrant a revision to the remaining periods of amortization. Recoverability of finite-lived intangible assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. The intangible asset is amortized to the consolidated statement of operations based on estimated cash flows generated from the intangible over its estimated life.

(i) Impairment of Long-Lived Assets

The Company s management routinely considers whether indicators of impairment of long-lived assets are present. If such indicators are present, management determines whether the sum of the estimated undiscounted cash flows attributable to the assets in question is less than their carrying value. If less, the Company will recognize an impairment loss based on the excess of the carrying amount of the assets over their respective fair values. Fair value is determined by discounted future cash flows, appraisals or other methods. If the assets determined to be impaired are to be held and used, the Company will recognize an impairment charge to the extent the present value of anticipated net cash flows attributable to the asset are less than the asset s carrying value. The fair value of the asset will then become the asset s new carrying value. There have been no impairments of long-lived assets recorded during the years ended December 31, 2017, 2016 and 2015. The Company may record impairment losses in future periods if factors influencing its estimates change.

(j) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. Under the acquisition method, assets acquired and liabilities assumed are recorded at their respective fair values as of the acquisition date in our financial statements. The excess of the fair value of consideration transferred over the fair value of the net assets acquired is recorded as goodwill. Contingent consideration obligations incurred in connection with a business combination are recorded at their fair values on the acquisition date and remeasured at their fair values each subsequent reporting period until the related contingencies are resolved. The resulting changes in fair values are recorded in earnings.

(k) Segment Reporting

Reportable 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. Based on the financial information presented to and reviewed by the CODM, the Company has determined that it has two reportable segments: Breast Products and miraDry.

(l) Revenue Recognition

The Company recognizes revenue related to sales of products directly to customers in markets where it has regulatory approval, net of trade discounts and allowances, provided that (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred and title and risk of loss have transferred, (iii) the price is fixed or determinable and (iv) collectability is reasonably assured. Sales prices are documented in the executed sales contract or purchase order prior to shipment. The Company evaluates the creditworthiness of customers to determine that appropriate credit limits are established prior to the acceptance of an order. Revenue for extended warranties and service agreements are recognized ratably over the term of the agreement.

Table of Contents

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 warehouse.

The Company also leverages a distributor network for selling the miraDry System internationally. The Company recognizes revenue when title to the product and risk of loss transfer to customers, provided there are no remaining performance obligations required of the Company or any written matters requiring customer acceptance, which generally occurs upon shipment. Standard terms in these agreements do not allow for trial periods, rights of return, refunds, payments contingent on obtaining financing or other terms that could impact the customer s obligation.

Appropriate reserves are established for anticipated sales returns based on historical experience, recent gross sales and any notification of pending returns. For Breast Products specifically, the Company allows for the return of Breast Products from customers within six months after the original sale and records estimated sales returns as a reduction of sales in the same period revenue is recognized. Sales return provisions are calculated based upon historical experience with actual returns. 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 $3.9 million as of both December 31, 2017 and 2016, recorded net against accounts receivable in the consolidated balance sheet.

Shipping and handling charges are largely provided to customers free of charge for breast products. The associated costs are viewed as part of the Company s marketing programs and are recorded as a component of sales and marketing expense in the consolidated statement of operations as an accounting policy election. Shipping and handling charges are typically billed to the customer for sales of the miraDry Systems and are recorded as a component of cost of goods sold in the consolidated statement of operations. For the years ended 2017, 2016 and 2015 shipping costs amounted to $1.0 million, $0.6 million and $1.1 million, respectively.

(m) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability to collect from some of its customers. The allowances for doubtful accounts are based on the analysis of historical bad debts, customer credit-worthiness, past transaction history with the customer, and current economic trends. If the financial condition of the Company s customers were to deteriorate, adversely affecting their ability to make payments, additional allowances may be required. The Company has established an allowance for doubtful accounts of $0.9 million and $0.4 million as of December 31, 2017 and 2016, respectively.

(n) Inventories and Cost of Goods Sold

Inventories represent raw materials, work in process and finished goods that are recorded at the lower of cost or market on a first-in, first-out basis, or FIFO. miraDry inventory costs are determined using a standard cost, which approximates actual cost on an average cost basis. The Company periodically assesses the recoverability of all inventories to determine whether adjustments for impairment or obsolescence are required. The Company evaluates the remaining shelf life and other general obsolescence and impairment criteria in assessing the recoverability of the Company s inventory.

The Company recognizes the cost of inventory transferred to the customer in cost of goods sold when revenue is recognized.

Table of Contents

At December 31, 2017 and 2016, approximately $1.6 million and $2.0 million, respectively, of the Company s Breast Products segment inventory was held on consignment at doctors offices, clinics, and hospitals. The value and quantity at any one location is not significant.

(o) Income Taxes

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

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. However, the Company has deferred tax liabilities associated with indefinite lived intangible assets that cannot be considered sources of income to support the realization of the deferred tax assets, and has provided for tax expense (or benefit) and a corresponding deferred tax liability associated with these indefinite lived intangible assets. Tax benefit for the year ended December 31, 2017 was $17 thousand and tax expense for the year ended December 31, 2016 was $0.1 million. There was no tax expense (or benefit) for the year ended December 31, 2015.

The Company accounts for uncertain tax position in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*. The Company assesses all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position s sustainability and is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and the Company will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of tax benefit might change as new information becomes available.

(p) Research and Development Expenditures

Research and development costs are charged to operating expenses as incurred. Research and development, or R&D, primarily consist of clinical expenses, regulatory expenses, product development, consulting services, outside research activities, quality control and other costs associated with the development of the Company s products and compliance with Good Clinical Practices, or GCP, requirements. R&D expenses also include related personnel and consultant compensation and stock-based compensation expense.

(q) Advertising

Expenses related to advertising are charged to sales and marketing expense as incurred. Advertising costs were $1.8 million, $0.6 million and $1.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Table of Contents

(r) Stock-Based Compensation

The Company applies the fair value provisions of ASC 718, *Compensation Stock Compensation*, or ASC 718. ASC 718 requires the recognition of compensation expense, using a fair-value based method, for costs related to all employee share-based payments, including stock options, restricted stock units, and the employee stock purchase plan. ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. We estimate the fair value of our stock-based awards to employees and directors using the Black-Scholes option pricing model. The grant date fair value of a stock-based award is recognized as an expense over the requisite service period of the award on a straight-line basis. In addition, we use the Monte-Carlo simulation option-pricing model to determine the fair value of market-based awards. The Monte-Carlo simulation option-pricing model uses the same input assumptions as the Black-Scholes model; however, it also further incorporates into the fair-value determination the possibility that the market condition may not be satisfied. Compensation costs related to these awards are recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

The option-pricing models require the input of subjective assumptions, including the risk-free interest rate, expected dividend yield, expected volatility and expected term, among other inputs. These estimates involve inherent uncertainties and the application of management s judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future. These assumptions are estimated as follows:

Risk-free interest rate The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the options for each option group.

Dividend yield We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. Consequently, we used an expected dividend yield of zero.

Expected volatility As we do not have a significant trading history for our common stock, the expected stock price volatility for our common stock was estimated by taking the average of (i) the median historic price volatility and (ii) the median of the implied volatility averages, with a three-month lookback from the valuation date, for any trading options of industry peers based on daily price observations over a period equivalent to the expected term of the time to a liquidity event. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available.

Expected term The expected term represents the period that our stock-based awards are expected to be outstanding.

During the year ended December 31, 2017, the Company adopted ASU 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* and changed its policy from estimating forfeitures to recording forfeitures when they occur.

The following table presents the weighted-average assumptions used to estimate the fair value of options granted during the periods presented:

	Year Ended December 31,								
Stock Options	**2017**			**2016**			**2015**		
Expected term (in years)	4.47	to	6.07	5.47	to	6.07	5.27	to	6.08
Expected volatility	45%	to	56%	51%	to	53%	45%	to	52%
Risk-free interest rate	1.24%	to	2.45%	1.42%	to	1.54%	1.48%	to	1.92%
Dividend yield									

The following table presents the weighted-average assumptions used to estimate the fair value of the stock purchase rights granted under the employee stock purchase plan:

Table of Contents

	Year Ended December 31,								
ESPP	**2017**			**2016**			**2015**		
Expected term (in years)	0.50	to	2.10	0.50	to	2.10	0.50	to	2.10
Expected volatility	46%	to	55%	42%	to	58%	42%	to	44%
Risk-free interest rate	0.08%	to	1.30%	0.08%	to	0.85%	0.08%	to	0.71%
Dividend yield									

(s) Product Warranties

The Company offers a limited warranty and a lifetime product replacement program for the Company s silicone gel breast implants and a product warranty for the Company s miraDry Systems. Under the breast implant limited warranty, the Company will reimburse patients for certain out-of-pocket costs related to revision surgeries performed within ten years from the date of implantation in a covered event. Under the breast implant lifetime product replacement program, the Company provides no-charge replacement breast implants if a patient experiences a covered event. Under the miraDry warranty, the Company currently provides a standard product warranty for the consoles, handpieces and the miraDry consumables, or bioTips. Additionally, an extended miraDry warranty may be purchased to provide additional protection of the miraDry System. The portion of the warranty provision expected to be incurred within 12 months is classified as current within accrued liabilities and other, while the remaining amount is classified as long-term within warranty reserve and other long-term liabilities.

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

	Year Ended December 31,	
	2017	**2016**
Beginning balance as of January 1	$ 1,378	$ 1,332
Assumed warranty liability from acquisition	137	
Warranty costs incurred during the period	(167)	(25)
Changes in accrual related to warranties issued during the period	301	177
Changes in accrual related to pre-existing warranties	(7)	(106)
Balance as of December 31	$ 1,642	$ 1,378

(t) Net Loss Per Share

	December 31,		
	2017	**2016**	**2015**
Net loss (in thousands)	$ (64,028)	$ (40,166)	$ (41,230)
Weighted average common shares outstanding, basic and diluted	19,159,057	18,233,177	15,770,972
Net loss per share attributable to common stockholders	$ (3.34)	$ (2.20)	$ (2.61)

The Company excluded the following potentially dilutive securities, outstanding as of December 31, 2017, 2016 and 2015 from the computation of diluted net loss per share attributable to common stockholders for the years ended December 31, 2017, 2016 and 2015 because they had an anti-dilutive impact due to the net loss attributable to common stockholders incurred for the periods.

	December 31,		
	2017	**2016**	**2015**
Stock options to purchase common stock	1,867,627	2,057,296	1,967,906
Warrants for the purchase of common stock	47,710	47,710	47,710
	1,915,337	2,105,006	2,015,616

Table of Contents

(u) Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In July 2015, the FASB issued ASU 2015-11, *Inventory Simplifying the Measurement of Inventory*. The standard simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value, thereby simplifying the previous guidance under which an entity must measure inventory at the lower of cost or market. The Company adopted ASU 2015-11 in the first quarter of 2017 on a prospective basis. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation Stock Compensation (Topic 718).* The standard identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the consolidated statement of cash flows. Under ASU 2016-09, differences between the tax deduction for share-based awards and the related compensation expenses recognized under ASC 718 are now accounted for as a component of the provision for income taxes. In addition, ASU 2016-09 eliminates the requirement that excess tax benefits from share-based compensation reduce income taxes payable prior to being recognized in the financial statements. The Company adopted ASU 2016-09 in the first quarter of 2017 on a modified retrospective basis. As of December 31, 2017, the Company had cumulative excess benefits related to share-based compensation of $0.1 million, which had previously not been reflected as a deferred tax asset. As a result of the adoption of ASU 2016-09, the excess benefits were reclassified to the Company s net operating loss carryover, resulting in an increase to the deferred tax assets and valuation allowance of $0.1 million as of January 1, 2017. There was no impact to retained earnings as a result of the adoption of ASU 2016-09. Additionally, in accordance with ASU 2016-09, the Company has made an accounting policy election to account for forfeitures when they occur.

In January 2017, the FASB issued ASU 2017-04, *Intangibles Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*. The standard update eliminates Step 2 from the goodwill impairment test. The guidance requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. In addition, the guidance eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The Company adopted ASU 2017-04 in the first quarter of 2017 on a prospective basis. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard was issued to provide a single framework that replaces existing industry and transaction specific GAAP with a five step analysis of transactions to determine when and how revenue is recognized. The accounting standard update will replace most existing revenue recognition guidance in GAAP when it becomes effective. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* to defer the effective date of ASU 2014-09 by one year. Therefore, ASU 2014-09 will become effective for the Company beginning in fiscal year 2018. Early adoption would be permitted for the Company beginning in fiscal year 2017. The standard permits the use of either the retrospective or cumulative transition method. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.* ASU 2016-20 is intended to clarify and suggest improvements to the application of current standards under Topic 606 and other Topics amended by ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The effective date of

ASU 2016-20 is the same as the effective date for ASU 2014-09. In preparation for our adoption of the new standard in our fiscal year ending December 31, 2018, we are reviewing contracts and other forms of agreements with our customers and are evaluating the provisions contained therein in light of the five-step model specified by the new guidance. That five-step model includes: (1) determination of whether a contract an agreement between two or more parties that creates legally enforceable rights and obligations exists; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance

Table of Contents

obligations in the contract; and (5) recognition of revenue when (or as) the performance obligation is satisfied. We are also evaluating the impact of the new standard on certain common practices currently employed by us and by other medical device companies, such as allowance for sales returns, rebates and other pricing programs. We plan to adopt the new standard using the modified retrospective method at the beginning of our first quarter of fiscal year 2018. We are in process of evaluating the impact of the new standard, and do not anticipate there being a material impact to net sales. As a result of the transition to the new standard, we have identified certain prospective impacts to accounting policies, which include recording any amounts received or receivable for which the Company does not expect to be entitled as a refund liability, as well separately disclosing the balance of expected assets for recovery in a footnote to inventory beginning in FY2018. A complete list of the impacts from transition to 606 will be included in the first quarterly filing of fiscal 2018.

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. The Company is currently evaluating the impact that adoption of the standard will have on the financial statements and related disclosures.

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 updated accounting standard will be effective for the Company beginning in fiscal year 2018. The Company will evaluate the impact of this ASU on future acquisitions.

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 ASC 718. The ASU is effective for the Company beginning in fiscal year 2018. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial statements and related disclosures.

(v) Reclassifications

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

(1) 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 million. The transaction, which closed on July 25, 2017, or the Acquisition Date, added the miraDry System, the only FDA cleared device to reduce underarm sweat, odor and permanently reduce hair of all colors, to Sientra s aesthetics portfolio. In connection with the acquisition, the Company recorded $3.1 million of professional fees for the year ended December 31, 2017, which are included in general and administrative expense. The aggregate preliminary acquisition date fair value of the consideration transferred was approximately

$29.6 million, consisting of the following (in thousands):

Table of Contents

	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 relates 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. 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 2. The contingent consideration component is subject to the recognition of subsequent changes in fair value through general and administrative expense in the 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 preliminary 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 expected to be deductible for tax purposes.

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

Table of Contents

	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; however, the purchase price allocation has not been finalized. This could result in adjustments to the carrying value of the assets acquired and liabilities assumed, the useful lives of intangible assets and residual amount allocated to goodwill. The preliminary allocation of the purchase price is based on the best estimates of management and is subject to revision based on the final valuations and estimates of useful lives.

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 2016. 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 consolidated results of operations of the combined business had the merger actually occurred at the beginning of fiscal year 2016 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):

	December 31,	
	2017	2016
	Pro Forma	
Net sales	$ 46,747	$ 41,179
Net loss	(69,545)	(69,226)
Pro forma loss per share attributable to ordinary shares basic and diluted	$ (3.62)	$ (3.78)

(b) Acquisition of BIOCORNEUM

On March 9, 2016, the Company entered into an asset purchase agreement with Enaltus LLC, or Enaltus, to acquire exclusive U.S. rights to BIOCORNEUM, an advanced silicone scar treatment marketed exclusively to physicians. The acquisition of BIOCORNEUM aligns with the Company s business development objectives and adds a complementary product that serves the needs of its customers. In connection with the acquisition, the Company recorded $0.2 million of professional fees for the year ended, December 31, 2016 which is included in general and administrative expense. The aggregate acquisition date fair value of the consideration transferred was approximately $7.4 million, which consisted of the following (in thousands):

	Fair Value

Cash	$	6,859
Deferred consideration		434
Contingent consideration		116
	$	7,409

The deferred consideration and contingent consideration consist of future royalty payments to be paid on a quarterly basis to Enaltus on future BIOCORNEUM sales for the 4.5 years beginning January 1, 2024. The Company determined the fair value of the deferred consideration and contingent consideration at the acquisition date using a Monte-Carlo simulation model. The fair value of the deferred consideration is based on the future minimum royalty payments using the risk-free U.S. Treasury yield curve discount rate. The minimum estimated future payments due

Table of Contents

under the deferred consideration are $0.5 million. The fair value of the contingent consideration is based on projected future BIOCORNEUM sales and a risk-adjusted discount rate. The terms of the agreement do not provide for a limitation on the maximum potential future payments. The inputs are significant inputs not observable in the market, which are referred to as Level 3 inputs and are further discussed in Note 2. The deferred consideration and contingent consideration components are subject to the recognition of subsequent changes in fair value through general and administrative expense in the consolidated statement of operations.

The Company allocated the total consideration transferred to the tangible and identifiable intangible assets acquired based on their respective fair values on the acquisition date, with the remaining unallocated amount recorded as goodwill. The goodwill arising from the transaction is primarily attributable to expected operational synergies, and all of goodwill will be deductible for income tax purposes. The consolidated financial statements for the years ended December 31, 2017 and 2016 include the results of operations of BIOCORNEUM from the date of acquisition.

The following table summarizes the allocation of the fair value of the consideration transferred by major class for the business combination completed on March 9, 2016 (in thousands):

	March 9, 2016
Inventories, net	$ 100
Prepaid expenses	36
Goodwill	3,273
Intangible assets	4,000
	$ 7,409

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

	Amount	Estimated useful life (in years)	Amortization method
Customer relationships	$ 3,200	10	Accelerated
Trade name	800	12	Straight-line
	$ 4,000		

The Company retained an independent third-party appraiser to assist management in its valuation and the purchase price has been finalized. Pro forma results of operations have not been presented because the effect of the acquisition was not material to the Company s results of operations.

(c) Acquisition of Tissue Expander Portfolio from Specialty Surgical Products, Inc.

On November 2, 2016, the Company entered into an asset purchase agreement with Specialty Surgical Products, Inc., or SSP, to acquire certain assets, consisting of the Dermaspan, Softspan, and AlloX2 tissue expanders, from SSP. The

acquisition adds a complete portfolio of premium, differentiated tissue expanders and aligns with the Company s business development plans for growth in the breast reconstruction market. In connection with the acquisition, the Company recorded $0.1 million of professional fees for the year ended December 31, 2016, which is included in general and administrative expense. The aggregate acquisition date fair value of the consideration transferred was approximately $6.0 million, which consisted of the following (in thousands):

	Fair Value
Cash	$ 4,950
Contingent consideration	1,050
	$ 6,000

Table of Contents

The contingent consideration consists of future cash payments of a maximum of $2.0 million to be paid to SSP based upon the achievement of certain milestones of future net sales. The Company determined the fair value of the contingent consideration at the acquisition date 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 2. The contingent consideration components are subject to the recognition of subsequent changes in fair value through general and administrative expense in the consolidated statement of operations.

The Company allocated the total consideration transferred to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values on the acquisition date, with the remaining unallocated amount recorded as goodwill. The goodwill arising from the transaction is primarily attributable to expected operational synergies, and all of goodwill will be deductible for income tax purposes. The financial statements for the years ended December 31, 2016 and 2017 include the results of operations of the Dermaspan, Softspan, and AlloX2 tissue expanders from the date of acquisition.

The following table summarizes the allocation of the fair value of the consideration transferred by major class for the business combination completed on November 2, 2016 (in thousands):

	November 2, 2016
Accounts receivable, net	$ 196
Inventories, net	1,555
Equipment	34
Goodwill	1,605
Intangible assets	2,860
Liabilities assumed	(250)
	$ 6,000

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

	Amount	Estimated useful life	Amortization method
Customer relationships	$ 1,740	9 years	Accelerated
Regulatory approvals	670	14 months	Straight-line
Trade names	450	indefinite-lived	
	$ 2,860		

The Company retained an independent third-party appraiser to assist management in its valuation and the purchase price has been finalized. Pro forma results of operations have not been presented because the effect of the acquisition was not material to the Company s results of operations.

(4) Balance Sheet Components

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

	December 31,	
	2017	2016
Raw materials	$ 1,642	$
Work in progress	3,956	
Finished goods	15,298	18,484
	$ 20,896	$ 18,484

Table of Contents

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

	December 31,	
	2017	2016
Leasehold improvements	$ 402	$ 86
Manufacturing equipment and toolings	4,260	2,264
Computer equipment	387	287
Software	797	669
Office equipment	142	129
Furniture and fixtures	816	743
	6,804	4,178
Less accumulated depreciation	(2,041)	(1,192)
	$ 4,763	$ 2,986

Depreciation expense for the years ended December 31, 2017, 2016 and 2015 was $0.9 million, $0.4 million and $0.3 million, respectively.

Accrued and other current liabilities consist of the following:

	December 31,	
	2017	2016
Payroll and related expenses	$ 3,579	$ 2,592
Accrued commissions	3,297	1,222
Accrued equipment	1,091	887
Deferred consideration, current portion	977	
Audit, consulting and legal fees	920	803
Accrued sales and marketing expenses	794	39
Other	2,816	964
	$ 13,474	$ 6,507

(5) 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. Upon executing the Credit Agreements, the Company repaid in full its indebtedness under the SVB Loan Agreement, which totaled approximately $5.0 million related to a revolving line of credit, or the Revolving Line of Credit. In connection with the refinancing, the Company was forgiven a commitment fee payable of approximately $0.8 million, which was included in long term liabilities, net of the current portion included in accrued and other current liabilities in the consolidated balance sheet, and corresponding warrants of approximately $0.1 million related to the SVB Loan Agreement were extinguished. The Company also recorded an

expense of approximately $16 thousand related to the write-off of related issuance costs, which has been included in interest expense in the consolidated statements of operations. Unamortized debt issuance costs from the SVB Loan Agreement related to the modification will be amortized over the term of the new Credit Agreements.

Under the terms of the Term Loan Credit Agreement, as of July 25, 2017, Midcap funded $25.0 million to the Company, 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. 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 (as defined by the agreement) accounts receivable plus 40% of eligible (as defined by the

Table of Contents

agreement) 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 the proceeds 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 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 December 31, 2017 was 1.36%, 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. 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 December 31, 2017, there was $25.0 million outstanding related to the Term Loans. As of December 31, 2017, the unamortized debt issuance costs on the Term Loans was approximately $0.3 million and are included as a reduction to the current portion of long-term debt on the 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 may prepay all of the outstanding balance prior to the maturity date provided the Company pays Midcap a prepayment fee. The Company paid an origination fee of 0.50% of the Revolving Loan amount of $10.0 million on the closing date. As of December 31, 2017, there were no borrowings outstanding related to the Revolving Loan. As of December 31, 2017, the unamortized debt issuance costs related to the Revolving Loan was approximately $0.1 million and was included in prepaid expenses and other current assets on the consolidated balance sheet.

The amortization of debt issuance costs for the year ended December 31, 2017 was $0.1 million, relating to the Revolving Line of Credit, the Term Loans, and the Revolving Loan and were included in interest expense in the consolidated statement of operations.

The Credit Agreements includes 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, other than intellectual property.

While the Company was in compliance with the financial covenants in its credit agreement with MidCap at December 31, 2017, given the potential violations of those covenants during fiscal year 2018, as discussed in Note 2, the Company has classified the debt, net of unamortized debt issuance costs, as current in the consolidated balance sheet at December 31, 2017. On this basis, as of December 31, 2017, the future debt payments of $25.0 million are considered payable in 2018.

(6) Goodwill and Other Intangible Assets, net

(a) Goodwill

The Company has determined that it has two reporting units, Breast Products and miraDry, and evaluates goodwill for impairment at least annually on October 1st and whenever circumstances suggest that goodwill may be impaired.

Table of Contents

The changes in the carrying amount of goodwill during the years ended December 31, 2017 and 2016 were as follows (in thousands):

	Breast Product	miraDry	Total
Balances as of December 31, 2015			
Goodwill	$ 14,278	$	$ 14,278
Accumulated impairment losses	(14,278)		(14,278)