Sientra, Inc.
Form 10-Q
May 14, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission file number: 001-36709

SIENTRA, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-5551000**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer 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 whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

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

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

As of May 8, 2015, the number of outstanding shares of the registrant s common stock, par value $0.01 per share, was 14,926,212.

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SIENTRA, INC.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIENTRA, INC.

Condensed Balance Sheets

(In thousands, except per share and share amounts)

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 93,586	$ 96,729
Accounts receivable, net of allowances of $11,518 and $10,330 at March 31, 2015 and December 31, 2014, respectively	5,647	5,198
Inventories, net	19,568	20,174
Prepaid expenses and other current assets	1,892	1,782
Total current assets	120,693	123,883
Property and equipment, net	786	555
Goodwill	14,278	14,278
Other intangible assets, net	99	114
Other assets	248	248
Total assets	$ 136,104	$ 139,078
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt	$ 6,074	$ 3,757
Accounts payable	1,795	2,589
Accrued and other current liabilities	5,446	5,772
Customer deposits	9,295	8,614
Total current liabilities	22,610	20,732
Long-term debt, net of current portion	19,481	21,671
Warranty reserve and other long-term liabilities	1,177	1,036
Total liabilities	43,268	43,439
Commitments and contingencies (note 10)		
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; issued 14,998,939 and 14,985,704 and outstanding 14,926,212 and 14,912,977 shares at March 31, 2015 and December 31, 2014, respectively	150	150
Additional paid-in capital	230,376	229,795
Treasury stock, at cost (72,727 shares at March 31, 2015 and December 31, 2014)	(260)	(260)
Accumulated deficit	(137,430)	(134,046)

Total stockholders equity		92,836		95,639
Total liabilities and stockholders equity	$	136,104	$	139,078

See accompanying notes to condensed financial statements.

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SIENTRA, INC.

Condensed Statements of Operations

(In thousands, except per share and share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2015	**2014**
Net sales	$ 12,434	$ 10,228
Cost of goods sold	3,237	2,574
Gross profit	9,197	7,654
Operating expenses:		
Sales and marketing	6,854	5,574
Research and development	1,256	1,193
General and administrative	3,721	2,267
Total operating expenses	11,831	9,034
Loss from operations	(2,634)	(1,380)
Other (expense) income, net:		
Interest expense	(668)	(431)
Other (expense) income, net:	(82)	809
Total other (expense) income, net	(750)	378
Loss before income taxes	(3,384)	(1,002)
Income taxes		
Net loss	$ (3,384)	$ (1,002)
Basic and diluted net loss per share attributable to common stockholders	$ (0.23)	$ (4.82)
Weighted average outstanding common shares used for net loss per share attributable to common stockholders:		
Basic and diluted	14,923,136	207,786

See accompanying notes to condensed financial statements.

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SIENTRA, INC.

Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	**2014**
Cash flows from operating activities:		
Net loss	$ (3,384)	$ (1,002)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	83	63
Provision for sales return reserve	1,222	208
Provision for doubtful accounts	20	
Provision for warranties	143	115
Provision for inventory	21	15
Change in fair value of warrants	82	49
Noncash interest expense	143	115
Stock-based compensation expense	543	78
Changes in assets and liabilities:		
Accounts receivable	(1,691)	367
Prepaid expenses, other current assets and other assets	(126)	(296)
Inventories	585	1,345
Accounts payable	(913)	(689)
Accrued and other liabilities	(382)	(1,066)
Customer deposits	681	457
Net cash used in operating activities	(2,973)	(241)
Cash flows from investing activities:		
Purchase of property and equipment	(137)	(11)
Net cash used in investing activities	(137)	(11)
Cash flows from financing activities:		
Proceeds from exercise of stock options	38	4
Deferred equity issuance costs	(71)	
Net cash (used in) provided by financing activities	(33)	4
Net decrease in cash and cash equivalents	(3,143)	(248)
Cash and cash equivalents at:		
Beginning of period	96,729	9,722
End of period	$ 93,586	$ 9,474
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 525	$ 315
Supplemental disclosure of noncash investing and financing activities:		
Accrued equity issuance costs	$	$ 298
Property and equipment in accounts payable	161	2

See accompanying notes to condensed financial statements.

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SIENTRA, INC.

Notes to the Condensed Financial Statements

(In thousands, except per share and share amounts)

(Unaudited)

1. Formation and Business of the Company

a. Formation

Sientra, Inc., or the Company, was incorporated in the State of Delaware on August 29, 2003 under the name Juliet Medical, Inc. and subsequently changed its name to Sientra, Inc. in April 2007. The Company acquired substantially all the assets of Silimed, Inc., on April 4, 2007. The purpose of the acquisition was to acquire the rights to the silicone breast implant clinical trials. Following this acquisition, the Company focused on completing the clinical trials to gain Food and Drug Administration, or FDA, approval to offer its silicone gel breast implants in the United States.

In March 2012, Sientra 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 commercial 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, tissue expanders, and body contouring products.

b. Reverse Stock Split

On October 10, 2014, our board of directors and stockholders approved an amendment to the Company s fourth amended and restated certificate of incorporation, which was filed on October 17, 2014, which effected a 2.75-to-1 reverse stock split of the Company s issued and outstanding shares of common stock. The par value of the common stock was not adjusted as a result of the reverse stock split. All issued and outstanding shares of common stock, stock options and warrants and the related per share amounts contained in the Company s condensed financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented. Also, as a result of the reverse stock split of the common stock, the conversion ratios for all of the Company s convertible preferred stock have been adjusted such that the preferred stock became convertible into shares of common stock at a conversion rate of 2.75-to-1 instead of 1-to-1.

c. Initial Public Offering

On November 3, 2014, the Company completed an initial public offering, or IPO, whereby it sold a total of 5,750,000 shares of common stock at $15.00 per share inclusive of 750,000 shares sold to underwriters for the exercise of their option to purchase additional shares. The Company received net proceeds from the IPO of approximately $77,035, after deducting underwriting discounts and commissions and offering expenses of approximately $9,215. These expenses were recorded against the proceeds received from the IPO.

The interest-only period for the tranche D term loan (see Note 8) was extended from August 1, 2015 to August 1, 2016 as a result of having raised at least $50,000 in gross proceeds in the IPO and the completion of the IPO before June 30, 2015.

The outstanding shares of convertible preferred stock were converted on a 2.75-to-1 basis into shares of common stock concurrent with the closing of the IPO. All of the outstanding shares of Series A, Series B and Series C preferred stock converted into 8,942,925 shares of common stock. Following the closing of the IPO, there were no shares of preferred stock outstanding.

2. Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying unaudited condensed financial statements in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and the rules and regulations of the U.S. Securities and Exchange Commission, or SEC. Accordingly, they do not include certain footnotes and financial presentations normally required under accounting principles generally accepted in the United States of America for complete financial reporting. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the opinion of management, considered necessary to provide a fair presentation for the interim periods presented. The accompanying condensed financial statements should be read in conjunction with the Company s audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 18, 2015, or the Annual Report. The results for the three months ended March 31, 2015 are not necessarily indicative of results to be expected for the year ending December 31, 2015, any other interim periods, or any future year or period.

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b. Use of Estimates

The preparation of the condensed financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

c. Significant Accounting Policies

There have been no significant changes to the accounting policies during the three months ended March 31, 2015, as compared to the significant accounting policies described in the Notes to Financial Statements in the Annual Report.

d. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued accounting standard update 2014-09, *Revenue from Contracts with Customers*. The standard was issued to provide a single framework that replaces existing industry and transaction specific US 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 US GAAP when it becomes effective. ASU 2014-09 will be effective for the Company s fiscal year beginning January 1, 2017. At its April 1, 2015 meeting the FASB agreed to propose a one-year deferral of the effective date for all entities. If approved, this proposal would make ASU 2014-09 effective for the Company s fiscal year beginning January 1, 2018. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative transition method. The Company is currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In April 2015, the FASB issued accounting standard update 2015-03, *Interest Imputation of Interest*. The standard was issued to simplify the presentation of debt issuance costs and require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This accounting standard update will be effective for the Company beginning in fiscal year 2016. The Company anticipates there will be no material impact on its financial statement upon adoption of this guidance.

In April 2015, the FASB issued accounting standard update 2015-05, *Intangibles Goodwill and Other Internal-Use Software*. The standard was issued to provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This accounting standard update will be effective for the Company beginning in fiscal year 2016. The Company anticipates there will be no material impact on its financial statement upon adoption of this guidance.

3. 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 is discussed in Note 4. The fair value of our long-term debt is based on the amount of future cash flows associated with the instrument discounted using our current market rate. At March 31, 2015, the carrying value of the long-term debt was not materially different from the fair value.

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4. 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. Prior to the IPO, the Company determined the fair value per share of the underlying common stock by taking into consideration its most recent sale of its convertible preferred stock as well as additional factors that the Company deems relevant. Subsequent to the IPO, the warrants are valued using the fair value of common stock as of the measurement date. The Company historically has been a private company and lacks company-specific historical and implied volatility information of its stock. Therefore, it estimates its expected stock volatility based on the historical volatility of publicly traded peer companies for a term equal to the remaining contractual term of the warrants. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve for time periods approximately equal to the remaining contractual term of the warrants. The Company has estimated a 0% dividend yield based on the expected dividend yield and the fact that the Company has never paid or declared dividends. As several significant inputs are not observable, the overall fair value measurement of the warrants is classified as Level 3.

The following tables present information about the Company s liabilities that are measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014 and indicate the level of the fair value hierarchy utilized to determine such fair value:

	Fair Value Measurements as of March 31, 2015 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for common stock warrants	$		502	502

	Fair Value Measurements as of December 31, 2014 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for common stock warrants	$		420	420

The liability for common stock warrants is included in accrued and other current liabilities in the balance sheet. The following table provides a rollforward of the aggregate fair values of the Company s common stock warrants for which fair value is determined by Level 3 inputs:

Balance, December 31, 2014	$	420
Increase in fair value through March 31, 2015		82
Balance, March 31, 2015	$	502

The company recognized changes in the fair value of these warrants in other (expense) income, net in the statement of operations.

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5. Product Warranties

The Company offers a limited warranty and a lifetime product replacement program for the Company s silicone gel breast implants. Under the 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 lifetime product replacement program, the Company provides no-charge replacement breast implants if a patient experiences a covered rupture. The programs are available to all patients implanted with the Company s silicone breast implants after April 1, 2012 and are subject to the related program s terms, conditions, claim procedures, limitations and exclusions. Timely completion of a device tracking and warranty enrollment form by the patient s Plastic Surgeon is required to activate the programs and for the patient to be able to receive benefits under either program.

The following table provides a rollforward of the accrued warranties:

	March 31,	
	2015	2014
Beginning balance	$ 961	$ 515
Payments made during the period	(7)	
Changes in accrual related to warranties issued during the period	138	115
Changes in accrual related to pre-existing warranties	5	
Ending balance	$ 1,097	$ 630

6. Net Loss Per Share

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

	Three months ended March 31,	
	2015	2014
Net loss	$ (3,384)	$ (1,002)
Weighted average common shares outstanding, basic and diluted	14,923,136	207,786
Net loss per share attributable to common stockholders	$ (0.23)	$ (4.82)

The Company excluded the following potentially dilutive securities, outstanding as of March 31, 2015 and 2014, from the computation of diluted net loss per share attributable to common stockholders for the three months ended March 31, 2015 and 2014 because they had an anti-dilutive impact due to the net loss attributable to common stockholders incurred for the periods.

	March 31, 2015	2014
Stock options to purchase common stock	2,151,543	1,419,585
Warrants for the purchase of common stock	47,710	30,670
Convertible preferred stock (as converted to common stock)		8,942,925
	2,199,253	10,393,180

7. Balance Sheet Components

a. Allowance for Sales Returns and Doubtful Accounts

The Company has established an allowance for sales returns of $11,239 and $10,018 as of March 31, 2015 and December 31, 2014, respectively, recorded net against accounts receivable in the balance sheet.

The Company has established an allowance for doubtful accounts of $279 and $312 as of March 31, 2015 and December 31, 2014, respectively, recorded net against accounts receivable in the balance sheet.

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b. Property and Equipment

Property and equipment, net consist of the following:

	March 31, 2015	December 31, 2014
Leasehold improvements	$ 70	$ 69
Computer equipment	164	138
Software	375	166
Office equipment	215	167
Furniture and fixtures	630	636
	1,454	1,176
Less accumulated depreciation	(668)	(621)
	$ 786	$ 555

Depreciation expense for the three months ended March 31, 2015 and 2014 was $68 and $40, respectively.

c. Goodwill and Other Intangible Assets, net

The goodwill on the condensed balance sheets was $14,278 for all periods presented.

The components of the Company s intangible assets are as follows:

	March 31, 2015	December 31, 2014
Acquired FDA non-gel product approval	$ 1,713	$ 1,713
Less accumulated amortization	(1,614)	(1,599)
	$ 99	$ 114

Amortization expense for the three months ended March 31, 2015 and 2014 was $15 and $23, respectively.

d. Accrued and Other Current Liabilities

Accrued and other current liabilities consist of the following:

	March 31, 2015	December 31, 2014
Accrued clinical trial and research and development expenses	$ 81	$ 109
Audit, consulting and legal fees	129	72
Payroll and related expenses	1,566	2,497
Accrued commission	1,856	1,969
Warrant liability	502	420
Other	1,312	705
	$ 5,446	$ 5,772

8. Long-term Debt

On January 17, 2013, the Company entered into a Loan and Security Agreement, or the Original Term Loan Agreement, with Oxford providing for a $15,000 term loan facility consisting of original term loans of (i) a $7,500 tranche A term loan, (ii) a $2,500 tranche B term loan and (iii) a $5,000 tranche C term loan, maturing on February 1, 2017. The term loan facility is collateralized by a first-priority security interest in substantially all of the Company s assets. Borrowings under the term loan facility bear interest at a rate equal to 8.4% per annum and the Original Term Loan Agreement provides for interest-only payments through June 30, 2015. The term loans include an additional lump sum payment of $975 due on February 1, 2017.

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On June 30, 2014, the Company entered into the Amended and Restated Loan and Security Agreement, or the Amended Term Loan Agreement, with Oxford, under which the interest-only period for the original term loans was extended to August 1, 2015 and borrowed an additional $10,000 in a fourth tranche (tranche D) loan maturing on January 1, 2019. The term loans are collateralized by a first-priority security interest in substantially all of the Company s assets. The term loans bear interest at a rate equal to 8.4% per annum. The interest-only period for the tranche A, B and C term loans ends on August 1, 2015 and the interest-only period for the tranche D term loan would have ended on the same date, but was extended another year as the Company raised at least $50,000 in gross proceeds as part of an initial public offering before June 30, 2015 (see Note 1). The tranche D term loan includes an additional lump sum payment of $650 due on January 1, 2019.

The Amended Term Loan Agreement contains various negative and affirmative covenants, including certain restrictive covenants that limit the Company s ability to transfer or dispose of certain assets, engage in new lines of business, change the composition of Company management, merge with or acquire other companies, incur additional debt, create new liens and encumbrances, pay dividends or subordinated debt and enter into material transactions with affiliates, among others. The Amended Term Loan Agreement also contains financial reporting requirements.

The aggregate maturities of long-term debt as of March 31, 2015 are: $3,757 in the remaining nine months of 2015, $11,094 in 2016, $5,558 in 2017, $4,223 in 2018 and $368 in 2019.

In connection with the Original Term Loan Agreement and the Amended Term Loan Agreement, the Company issued to Oxford (i) seven-year warrants in January 2013 to purchase shares of the Company s common stock with a value equal to 3.0% of the tranche A, B and C term loans amounts and (ii) seven-year warrants in June 2014 to purchase shares of the Company s common stock with a value equal to 2.5% of the tranche D term loan amount. The warrants have an exercise price per share of $14.671.

9. Stockholders Equity

a. Authorized Stock

The Company s Amended and Restated Certificate of Incorporation authorizes the Company to issue 210,000,000 shares of common and preferred stock, consisting of 200,000,000 shares of common stock with $0.01 par value and 10,000,000 shares of preferred stock with $0.01 par value. As of March 31, 2015 and December 31, 2014, the Company had no preferred stock issued or outstanding.

b. Stock Option Plan

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

Our board of directors adopted our 2014 Equity Incentive Plan, or 2014 Plan, in July 2014, and our stockholders approved the 2014 Plan in October 2014. The 2014 Plan became effective upon completion of the IPO, at which time the Company ceased making awards under the 2007 Plan. Under the 2014 Plan, the Company may issue ISO, NSOs, stock appreciation rights, restricted stock awards, restricted stock unit awards and other forms of stock awards, or collectively, stock awards, all of which may be granted to employees, including officers, non-employee directors and consultants of us and our affiliates. ISOs may be granted only to employees. A total of 1,027,500 shares of common stock were initially reserved for issuance under the 2014 Plan, subject to certain annual increases. On January 1, 2015, the 2014 Plan reserved an additional 298,259 shares of common stock for issuance.

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

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

	Option Shares	Weighted average exercise price	Weighted average remaining contractual term(years)
Balances at December 31, 2014	1,654,906	$ 4.25	5.48
Granted	517,700	15.65	
Exercised	(13,235)	2.86	
Forfeited	(7,828)	11.43	
Balances at March 31, 2015	2,151,543	$ 6.97	6.32

For stock-based awards the Company recognizes compensation expense based on the grant date fair value using the Black-Scholes option valuation model. Stock-based compensation expense was $445 and $78 for the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, there was $4,522 of unrecognized compensation costs related to stock options. The expense is recorded within the operating expense captions in the statement of operations based on the employees receiving the awards. These costs are expected to be recognized over weighted average period of 3.21 years.

c. Employee Stock Purchase Plan

The Company s board of directors adopted the 2014 Employee Stock Purchase Plan, or ESPP, in July 2014, and the stockholders approved the ESPP in October 2014. The ESPP allows eligible employees to purchase shares of the Company s common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The ESPP provides offering periods not to exceed 27 months, and each offering period will include purchase periods, which will be the approximately six-month period commencing with one exercise date and ending with the next exercise date, except that the first offering period commenced on the first trading day following the effective date of the Company s registration statement. Employees are able to purchase shares at 85% of the lower of the fair market value of the Company s common stock on the first trading day of the offering period or on the exercise date. A total of 255,500 shares of common stock were initially reserved for issuance under the ESPP, subject to certain annual increases. On January 1, 2015, the ESPP reserved an additional 149,129 shares of common stock for issuance.

The Company estimated the fair value of employee stock purchase rights using the Black-Scholes model. Stock-based compensation expense related to the ESPP was $98 for the three months ended March 31, 2015.

10. Commitments and Contingencies

a. Operating Leases

The Company s lease for its general office facility in Santa Barbara, California expires in February 2020. The Company also leases additional industrial space for warehouse, research and development and additional general office use. Rent expense was $123 and $91 for the three months ended March 31, 2015 and 2014, respectively. The Company recognizes rent expense on a straight-line basis over the lease term.

b. Contingencies

The Company is subject to claims and assessment from time to time in the ordinary course of business. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. There were no contingent liabilities requiring accrual at March 31, 2015.

In 2012, the Company filed a claim with the Hartford Insurance Company, or Hartford, for reimbursement of legal costs incurred in connection with litigation with a competitor that was resolved in 2013. The Company held a D&O insurance policy with Hartford, and the Company and Hartford settled the matter in May of 2014. The Company received settlement payments from Hartford and recovery of costs associated with the litigation of $0 and $858 for the three months ended March 31, 2015 and 2014, respectively.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2014 and the related Management s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on March 18, 2015. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to Sientra, the Company, we, us and our refer to Sientra, Inc.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the safe harbor created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words anticipates, believes, estimates, expects, intends, may, plans, projects, will, would and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, Risk Factors in this Quarterly Report on Form 10-Q and in our other filings with the SEC. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements.

Overview

We are a medical aesthetics company committed to making a difference in patients lives by enhancing their body image, growing their self-esteem and restoring their confidence. We were founded to provide greater choice to board-certified plastic surgeons and patients in need of medical aesthetics products. We have developed a broad portfolio of products with technologically differentiated characteristics, supported by independent laboratory testing and strong clinical trial outcomes.

Our primary products are silicone gel breast implants for use in breast augmentation and breast reconstruction procedures, which we offer in over 150 variations of shapes, sizes and textures. Our breast implants are primarily used in elective procedures which are generally performed on a cash-pay basis. Many of our breast implants incorporate one or more differentiated technologies, including a proprietary high-strength, cohesive silicone gel and proprietary texturing branded TRUE Texture. We also offer breast tissue expanders and a range of other aesthetic and specialty products. We do not have any patents or patent applications, but rely on trade secrets, proprietary know-how and regulatory barriers to protect our products and technologies.

Our breast implants were approved by the U.S. Food and Drug Administration, or FDA, in 2012, based on data we collected from our ongoing, long-term clinical trial of our breast implants in 1,788 women across 36 investigational sites in the United States. Our clinical trial is the largest prospective, long-term safety and effectiveness pivotal study of breast implant patients in the United States.

We commenced sales of our breast implants in the United States in the second quarter of 2012. We sell our breast implants and breast tissue expanders, or Breast Products, exclusively to board-certified and board-admissible plastic surgeons, who we refer to as Plastic Surgeons, and tailor our customer service offerings to their specific needs, which we believe helps secure their loyalty and confidence. We currently sell our products in the United States where we sell our products through a direct sales organization consisting of 51 employees, including 43 sales representatives and 8 sales managers, as of March 31, 2015.

Components of Operating Results

Net Sales

We commenced sales of our breast implants in the United States in the second quarter of 2012 and our Breast Products have historically accounted for substantially all of our net sales. Sales of our Breast Products accounted for 98% and 97% of our net sales for the three months ended March 31, 2015 and 2014, respectively.

We recognize revenue, net of sales discounts and estimated returns, as the customer has a standard six-month window to return purchased products. We anticipate our net sales will increase as we expand our sales force and marketing programs, increase awareness of our products and increase the comfort of Plastic Surgeons using anatomically-shaped breast implants. We also expect that, in the future, our net sales will fluctuate on a quarterly basis due to a variety of factors, including seasonality of breast augmentation procedures. We believe that breast implant sales are subject to seasonal fluctuation due to breast augmentation patients planning their surgery leading up to the summer season and in the period around the winter holiday season.

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Cost of Goods Sold and Gross Margin

Cost of goods sold consists primarily of costs of finished products purchased from our third-party manufacturer, reserve for product warranties and warehouse and other related costs.

Our silicone gel breast implants, tissue expanders and other products are manufactured under an exclusive contract with Silimed Industria de Implantes Ltda. (formerly, Silimed-Silicone e Instrumental Medico-Cirugio e Hospitalar Ltda.), or Silimed. Under our contract with Silimed, each particular style of implant has a fixed unit cost. In addition to product costs, we provide a commercial warranty on our silicone gel filled breast implants. The warranty covers device ruptures in certain circumstances. Estimated warranty costs are recorded at the time of sale. Our warehouse and other related costs include labor, rent, product shipping from our third party manufacturer and other related costs.

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

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of salaries, bonuses, benefits, incentive compensation and travel for our sales, marketing and customer support personnel. Our sales and marketing expenses also include expenses for trade shows, our no-charge customer shipping program and no-charge product evaluation units, as well as educational, promotional and marketing activities, including direct and online marketing. We expect our sales and marketing expenses to increase in absolute dollars as we increase our headcount and expand our marketing programs.

Research and Development Expenses

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

We expect our R&D expenses to increase as different development projects are initiated, including improvements to our existing products, expansions of our existing product lines, new product acquisitions and our FDA-required pre-market approval, or PMA, and post-approval studies of our breast implants. However, we generally expect these costs will increase in absolute terms over time as we continue to expand our product portfolio and add related personnel.

General and Administrative Expenses

Our general and administrative, or G&A, expenses primarily consist of salaries, bonuses, benefits and stock-based compensation for our executive, financial, legal, business development and administrative functions. Other G&A expenses include outside legal counsel and litigation expenses, independent auditors and