Sientra, Inc.
Form 10-Q
November 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission file number: 001-36709

SIENTRA, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	20-5551000
(State or Other Jurisdiction of 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 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 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	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

As of November 4, 2016, the number of outstanding shares of the registrant's common stock, par value $0.01 per share, was 18,594,257.

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SIENTRA, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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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)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 79,282	$ 112,801
Accounts receivable, net of allowances of $3,890 and $1,116 at September 30, 2016 and December 31, 2015, respectively	2,812	4,249
Inventories, net	19,048	20,602
Insurance recovery receivable	9,282	—
Prepaid expenses and other current assets	1,429	1,473
Total current assets	111,853	139,125
Property and equipment, net	2,076	1,404
Goodwill	3,273	—
Other intangible assets, net	3,586	53
Other assets	231	223
Total assets	$ 121,019	$ 140,805
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,201	$ 4,069
Accrued and other current liabilities	7,507	6,959
Legal settlement payable	10,900	—
Customer deposits	6,200	9,488
Total current liabilities	27,808	20,516
Warranty reserve and other long-term liabilities	2,141	1,418
Total liabilities	29,949	21,934
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 18,666,984 and 18,066,143 and outstanding 18,594,257 and 17,993,416 shares at September 30, 2016 and December 31, 2015 respectively	186	180
Additional paid-in capital	298,514	294,227
Treasury stock, at cost (72,727 shares at September 30, 2016 and December 31, 2015)	(260)	(260)
Accumulated deficit	(207,370)	(175,276)
Total stockholders' equity	91,070	118,871
Total liabilities and stockholders' equity	$ 121,019	$ 140,805

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$ 6,531	$ 9,929	$ 14,246	$ 36,569
Cost of goods sold	1,814	2,933	4,319	10,107
Gross profit	4,717	6,996	9,927	26,462
Operating expenses:				
Sales and marketing	5,137	6,282	16,533	20,087
Research and development	2,052	2,143	7,370	4,896
General and administrative	7,302	4,140	17,945	11,804
Total operating expenses	14,491	12,565	41,848	36,787
Loss from operations	(9,774)	(5,569)	(31,921)	(10,325)
Other income (expense), net:				
Interest income	16	12	47	19
Interest expense	(105)	(1,608)	(118)	(2,947)
Other (expense) income, net	(52)	561	(54)	273
Total other income (expense), net	(141)	(1,035)	(125)	(2,655)
Loss before income taxes	(9,915)	(6,604)	(32,046)	(12,980)
Income taxes	48	—	48	—
Net loss	$ (9,963)	$ (6,604)	$ (32,094)	$ (12,980)
Basic and diluted net loss per share attributable to common stockholders	$ (0.55)	$ (0.43)	$ (1.77)	$ (0.86)
Weighted average outstanding common shares used for net loss per share attributable to common stockholders:				
Basic and diluted	18,208,112	15,207,870	18,111,593	15,022,022

See accompanying notes to condensed financial statements.

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SIENTRA, INC.

Condensed Statements of Cash Flows

(In thousands)

(Unaudited)

	September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (32,094)	$ (12,980)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	734	232
Provision for doubtful accounts	384	40
Provision for warranties	133	445
Provision for inventory	519	355
Change in fair value of warrants	57	(274)
Non-cash interest expense	23	1,387
Stock-based compensation expense	2,630	1,759
Loss on disposal of property and equipment	124	—
Deferred income taxes	48	—
Changes in assets and liabilities:		
Accounts receivable	1,053	1,511
Prepaid expenses, other current assets and other assets	(58)	20
Inventories	1,136	(851)
Insurance recovery receivable	(9,282)	—
Accounts payable	(986)	295
Accrued and other liabilities	460	1,082
Legal settlement payable	10,900	—
Customer deposits	(3,288)	(1,048)
Net cash used in operating activities	(27,507)	(8,027)
Cash flows from investing activities:		
Purchase of property and equipment	(916)	(844)
Business acquisition	(6,759)	—
Net cash used in investing activities	(7,675)	(844)
Cash flows from financing activities:		
Proceeds from exercise of stock options	910	113
Proceeds from issuance of common stock, net of underwriters discount	—	62,040
Proceeds from issuance of common stock under ESPP	753	564
Deferred equity issuance costs, IPO	—	(72)
Deferred equity issuance costs, follow-on offering	—	(77)
Repayment of long-term debt	—	(1,487)
Net cash provided by financing activities	1,663	61,081
Net (decrease) increase in cash and cash equivalents	(33,519)	52,210
Cash and cash equivalents at:		

Beginning of period	112,801	96,729
End of period	$ 79,282	$ 148,939
Supplemental disclosure of cash flow information:		
Interest paid	$ 96	$ 1,570
Supplemental disclosure of non-cash investing and financing activities:		
Accrued equity issuance costs	$ —	$ 566
Property and equipment in accounts payable	140	36
Acquisition of business, deferred and contingent consideration obligations at fair value	550	—

See accompanying notes to condensed financial statements.

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SIENTRA, INC.

Notes to the Condensed Financial Statements

(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, related product specifications and premarket approval, or PMA, assets. 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 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. Regulatory Inquiries Regarding Products Manufactured by Silimed

There have been recent regulatory inquiries related to medical devices manufactured by Silimed Industria de Implantes Ltda. (formerly, Silimed-Silicone e Instrumental Medico-Cirugio e Hospitalar Ltda.), or Silimed, the

Company's sole source contract manufacturer for its silicone gel breast implants and certain other products.

On September 23, 2015, the Medicines and Healthcare Products Regulatory Agency, or MHRA, an executive agency of the United Kingdom, or U.K., issued a press release announcing the suspension of sales and implanting in the U.K. of all medical devices manufactured by Silimed following the suspension of the CE certificate of these products issued by TUV SUD, Silimed's notified body under European Union, or EU, regulation. The suspension of Silimed's CE certificate by TUV SUD followed TUV SUD's inspection at Silimed's manufacturing facilities in Brazil, relating to surface particles on Silimed breast products. Breast implants have stringent standards for manufacturing and robust quality systems, but there is no specific or defined standard for surface particles on breast implants. MHRA noted that no risks to patient health have been identified in connection with implanting Silimed products, and, accordingly, there is no need to adopt any procedure or action for those patients who have received them.

On October 2, 2015, the Brazilian regulatory agency ANVISA and the Department of the Secretary of State of the State of Rio de Janeiro announced that as a precautionary measure, they temporarily suspended the manufacturing and shipment of all medical devices made by Silimed, including products manufactured for Sientra, while they continue to review the technical compliance related to Good Manufacturing Practices, or GMP, of Silimed's manufacturing facility. ANVISA reiterated that no risks to patient health have been identified in connection with implanting Silimed products, and, accordingly, there is no need to adopt any procedure or action for those patients who have received them. Furthermore,

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ANVISA also indicated that, based on its contact to date with foreign regulatory authorities, there have been no reports of adverse events related to this issue.

On October 9, 2015, the Company voluntarily placed a hold on the sale of all Sientra devices manufactured by Silimed and recommended that plastic surgeons discontinue implanting the devices until further notice. The Company had ongoing discussions with the FDA regarding European and Brazilian regulatory inquiries into Silimed products, and the Company conducted its own review of the matter with the assistance of independent experts in quality management systems, GMP and data-based risk assessment. The FDA also reiterated that no reports of adverse events and no risks to patient health had been identified in connection with implanting Silimed products.

On January 27, 2016, after completing an analysis and risk assessment, ANVISA announced its authorization of Silimed to resume the commercialization and use of its previously manufactured products. ANVISA concluded there was no evidence to prove that the presence of surface particles on the silicone implants represented risks which are additional to the ones inherent in the product. However, Silimed would continue to be suspended from manufacturing and commercializing new batches of implants until an inspection was performed to reassess the fulfillment of its GMP compliance.

On March 1, 2016, after the completion of extensive independent, third-party testing and analyses of its devices manufactured by Silimed, the Company lifted the temporary hold on the sale of such devices. The Company also sent a letter to plastic surgeons informing them of the Company's controlled market re-entry plans designed to optimize the Company's inventory supply. The results of the Company's testing indicate no anticipated significant safety concerns with the use of its products, including its breast implants, consistent with their approval status since 2012.

On July 11, 2016, after completing an inspection of Silimed's facility, ANVISA announced the reinstatement of Silimed's GMP certificate and their ability to manufacture commercial products. The Brazilian GMP certificate is effective as of July 8, 2016 and is valid for two years. The Silimed facility that has been approved for manufacturing is an alternate facility to where Sientra products were previously manufactured, which was damaged by a fire on October 22, 2015, and it remains unclear as to whether the alternate facility is fully equipped to manufacture Sientra's silicone gel breast implants. Moreover, even if the alternate facility was equipped to manufacture Sientra's silicone gel breast implants, such products cannot be sold in the U.S. until a PMA supplement for that facility is submitted, Silimed's operations have been fully validated to U.S. FDA standards and they have successfully passed an FDA inspection, the timing of which remains uncertain. Additionally, the suspension of Silimed's CE certificate by TUV SUD remains in place and continues to limit Silimed's ability to sell to countries requiring a CE mark. The Company's existing manufacturing contract with Silimed expires on its terms in April 2017.

For more information on the status of the Company's relationship with Silimed, see Note 12—Subsequent Events—Silimed Litigation.

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, 2015 filed with the SEC on March 10, 2016, or the Annual Report. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of results to be expected for the year ending December 31, 2016, any other interim periods, or any future year or period.

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b.Going Concern

The accompanying financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. As of September 30, 2016, Silimed is the Company's sole source manufacturer of silicone gel breast implants and certain other products, but has not been able to resume manufacturing products for the Company. Accordingly, the Company continues to evaluate the availability of alternative manufacturing sources, including with Vesta Intermediate Funding, Inc., or Vesta, a Lubrizol Lifesciences company, which is establishing manufacturing capacity for the Company and is working with the Company to finalize a long-term supply arrangement for the Company's PMA-approved breast implants. The continuation of the Company as a going concern is dependent upon many factors including Silimed's ability to resume the manufacturing of the Company's medical devices, resolution of any outstanding disputes with Silimed (see Note 12—Subsequent Events – Silimed Litigation), the availability of alternative manufacturing sources, including the entry into a long-term supply arrangement with Vesta or other manufacturers, and continued sale of the Company's products. Since inception, the Company has incurred net losses. At September 30, 2016, the Company had cash and cash equivalents of $79.3 million. The Company's ability to continue to meet its obligations and to achieve its business objectives is dependent upon, amongst other things, generating sufficient revenues. The Company believes that it has the ability to continue as a going concern for at least 12 months. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

c.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.

d.Significant Accounting Policies

There have been no significant changes to the accounting policies during the three and nine months ended September 30, 2016, as compared to the significant accounting policies described in the "Notes to Financial Statements" in the Annual Report.

e.Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In November 2015, the Financial Accounting Standards Board, or FASB, issued accounting standard update, or ASU, 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes. The standard requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. ASU 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. The Company early adopted ASU 2015-17 during the third quarter of 2016 on a prospective basis. The adoption of this ASU did not have a significant impact on the Company's 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.

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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. 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 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 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 statement of cash flows. This accounting standard update will be effective for the Company beginning in fiscal year 2017. The Company is currently evaluating the impact that adoption of the standard will have on the financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows – Classifications of Certain Cash Receipts and Cash Payments (Topic 230). The standard update addresses eight specific cash flow issues not currently addressed by GAAP, with the objective of reducing the existing diversity in practice of how these cash receipts and payments are presented and classified in the statement of cash flows. This accounting standard update will be effective for the Company beginning in fiscal year 2018. The Company is currently evaluating the impact that adoption of the standard will have on the financial statements and related disclosures.

f.Reclassifications

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

3.Acquisition of bioCorneum®

On March 9, 2016, the Company entered into an assets 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 $2,000 and $0.2 million of professional fees for the three and nine months ended September 30, 2016, respectively, which are included in general and administrative expense. The aggregate preliminary acquisition date fair value of the consideration transferred was estimated at $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 has 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 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

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further discussed in Note 5. The deferred consideration and contingent consideration components are classified as an other long-term liability and are subject to the recognition of subsequent changes in fair value through the results 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 condensed financial statements for the three and nine months ended September 30, 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
Inventory	$ 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; 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.

Pro forma results of operations have not been presented because the effect of the acquisition was not material to the Company's condensed results of operations.

4.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 consideration and contingent consideration is discussed in Note 5. As of September 30, 2016, the Company had no outstanding long-term debt.

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5.Fair Value Measurements

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

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

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

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

The Company’s common stock warrant liabilities are carried at fair value determined according to the fair value hierarchy described above. The Company has utilized an option pricing valuation model to determine the fair value of its outstanding common stock warrant liabilities. The inputs to the model include fair value of the common stock related to the warrant, exercise price of the warrant, expected term, expected volatility, risk-free interest rate and dividend yield. The warrants are valued using the fair value of common stock as of the measurement date. The Company historically has been a private company and lacks company-specific historical and implied volatility information of its stock. Therefore, it estimates its expected stock volatility based on the historical volatility of publicly traded peer companies for a term equal to the remaining contractual term of the warrants. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve for time periods approximately equal to the remaining contractual term of the warrants. The Company has estimated a 0% dividend yield based on the expected dividend yield and the fact that the Company has never paid or declared dividends. As several significant inputs are not observable, the overall fair value measurement of the warrants is classified as Level 3.

The Company assessed the fair value of the deferred consideration and contingent consideration for future royalty payments related to the acquisition of bioCorneum® using the 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.

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The following tables present information about the Company's liabilities that are measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 and indicate the level of the fair value hierarchy utilized to determine such fair value (in thousands):

	Fair Value Measurements as of September 30, 2016 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for common stock warrants	$ —	—	117	117
Liability for deferred consideration	—	—	439	439
Liability for contingent consideration	—	—	131	131
	$ —	—	687	687

	Fair Value Measurements as of December 31, 2015 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for common stock warrants	$ —	—	60	60
	$ —	—	60	60

The liability for common stock warrants is included in "accrued and other current liabilities" and the liability for the deferred consideration and contingent consideration is included in the "warranty reserve and other long-term liabilities" in the 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):

Warrant Liability	
Balance, December 31, 2015	$ 60
Increase in fair value through September 30, 2016	57
Balance, September 30, 2016	$ 117
Deferred Consideration Liability	
Balance, December 31, 2015	$ —
Initial fair value of acquisition-related deferred consideration	434
Deferred consideration accretion expense	5
Balance, September 30, 2016	$ 439
Contingent Consideration Liability	
Balance, December 31, 2015	$ —
Initial fair value of acquisition-related contingent consideration	116

Contingent consideration accretion expense	15
Balance, September 30, 2016	$ 131

The Company recognizes changes in the fair value of the warrants, deferred consideration and contingent consideration in “other income (expense), net” in the statement of operations.

6.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 event. The programs are available to all patients implanted with the Company’s silicone breast implants after April 1, 2012 and are subject to the terms, conditions, claim procedures, limitations and exclusions. Timely completion of a device

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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 (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Beginning balance as of December 31	$ 1,332	$ 961
Payments made during the period	(19)	(15)
Changes in accrual related to warranties issued during the period	134	438
Changes in accrual related to pre-existing warranties	(1)	7
Balance as of September 30	$ 1,446	$ 1,391

7.Net Loss Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss (in thousands)	$ (9,963)	$ (6,604)	$ (32,094)	$ (12,980)
Weighted average common shares outstanding, basic and diluted	18,208,112	15,207,870	18,111,593	15,022,022
Net loss per share attributable to common stockholders	$ (0.55)	$ (0.43)	$ (1.77)	$ (0.86)

The Company excluded the following potentially dilutive securities, outstanding as of September 30, 2016 and 2015, from the computation of diluted net loss per share attributable to common stockholders for the three and nine months ended September 30, 2016 and 2015 because they had an anti-dilutive impact due to the net loss attributable to common stockholders incurred for the periods.

	September 30,	
	2016	2015
Stock options to purchase common stock	1,760,596	1,354,989
Warrants for the purchase of common stock	47,710	47,710
	1,808,306	1,402,699

8.Balance Sheet Components

a.Allowance for Sales Returns and Doubtful Accounts

The Company has established an allowance for sales returns of $3.5 million and $0.7 million as of September 30, 2016 and December 31, 2015, respectively, recorded net against accounts receivable in the balance sheet.

The Company has established an allowance for doubtful accounts of $0.4 million and $0.5 million as of September 30, 2016 and December 31, 2015, 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 (in thousands):

	September 30, 2016	December 31, 2015
Leasehold improvements	$ 86	$ 86
Laboratory equipment and toolings	1,343	366
Computer equipment	283	277
Software	569	655
Office equipment	129	137
Furniture and fixtures	725	724
	3,135	2,245
Less accumulated depreciation	(1,059)	(841)
	$ 2,076	$ 1,404

Depreciation expense for the three months ended September 30, 2016 and 2015 was $0.1 million and $0.1 million, respectively. Depreciation expense for the nine months ended September 30, 2016 and 2015 was $0.2 million and $0.2 million, respectively.

c.Goodwill and Other Intangible Assets, net

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

Under the first step of the test, the Company is required to compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and the second step of the test is not performed. If the results of the first step of the impairment test indicate that the fair value of a reporting unit does not exceed its carrying amount, then the second step of the test is required. The second step of the test compares the implied fair value of the reporting unit goodwill

with the carrying amount of that goodwill. The impairment loss is measured by the excess of the carrying amount of the reporting unit goodwill over the implied fair value of that goodwill.

The changes in the carrying amount of goodwill during the nine months ended September 30, 2016 were as follows (in thousands):

Balances as of December 31, 2015	
Goodwill	$ 14,278
Accumulated impairment losses	(14,278)
	—
Goodwill acquired (Note 3)	3,273
Balances as of September 30, 2016	
Goodwill	17,551
Accumulated impairment losses	(14,278)
	$ 3,273

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

	September 30, 2016	December 31, 2015
Acquired FDA non-gel product approval	$ 1,713	$ 1,713
Customer relationships	3,200	—
Trade name	800	—
Non-compete agreement	30	—
Less accumulated amortization	(2,157)	(1,660)
	$ 3,586	$ 53

Amortization expense for the three months ended September 30, 2016 and 2015 was $0.2 million and $15,000, respectively. Amortization expense for the nine months ended September 30, 2016 and 2015 was $0.5 million and $46,000, respectively. The following table summarizes the estimated amortization expense relating to the Company's intangible assets as of September 30, 2016 (in thousands):

Period	Amortization Expense
Remainder of 2016	$ 210
2017	813
2018	612
2019	464
2020	353
	$ 2,452

d.Accrued and Other Current Liabilities

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

	September 30, 2016	December 31, 2015
Accrued clinical trial and research and development expenses	$ 96	$ 215
Audit, consulting and legal fees	2,876	1,208
Payroll and related expenses	1,831	2,494

Accrued commission	1,925	1,960
Warrant liability	117	60
Other	662	1,022
	$ 7,507	$ 6,959

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 September 30, 2016 and December 31, 2015, the Company had no preferred stock issued or outstanding.

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b.Common Stock Warrants

On January 17, 2013, the Company entered into a Loan and Security Agreement, or the Original Term Loan Agreement, with Oxford Finance, LLC, or Oxford. On June 30, 2014, the Company entered into the Amended and Restated Loan and Security Agreement, or the Amended Term Loan Agreement, with Oxford. In connection with the Original Term Loan Agreement and the Amended Term Loan Agreement, the Company issued to Oxford (i) seven-year warrants in January 2013 to purchase shares of the Company's common stock with a value equal to 3.0% of the tranche A, B and C term loans amounts and (ii) seven-year warrants in June 2014 to purchase shares of the Company's common stock with a value equal to 2.5% of the tranche D term loan amount. The warrants have an exercise price per share of $14.671. As of September 30, 2016, there were warrants to purchase an aggregate of 47,710 shares of common stock outstanding.

c.Stock Option Plans

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

The Company's board of directors adopted the 2014 Equity Incentive Plan, or 2014 Plan, in July 2014, and the stockholders approved the 2014 Plan in October 2014. The 2014 Plan became effective upon completion of the IPO on November 3, 2014, at which time the Company ceased granting awards under the 2007 Plan. Under the 2014 Plan, the Company may issue ISOs, NSOs, stock appreciation rights, restricted stock awards, restricted stock unit awards and other forms of stock awards, or collectively, stock awards, all of which may be granted to employees, including officers, non-employee directors and consultants of the Company and their affiliates. ISOs may be granted only to employees. A total of 1,027,500 shares of common stock were initially reserved for issuance under the 2014 Plan, subject to certain annual increases. As of September 30, 2016, a total of 2,045,495 shares of the Company's common stock were reserved for issuance under the 2014 Plan.

Pursuant to a board-approved Inducement Plan, the Company may issue NSOs and restricted stock unit awards, or collectively, stock awards, all of which may only be granted to new employees of the Company and their affiliates in accordance with NASDAQ Stock Market Rule 5635(c)(4) as an inducement material to such individuals entering into employment with the Company. As of September 30, 2016, inducement grants for 30,000 shares have been awarded, and 150,000 shares were reserved for future issuance under the Inducement Plan.

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

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

	Option Shares	Weighted average exercise price	Weighted average remaining contractual term (year)
Balances at December 31, 2015	2,785,672	$ 6.66	6.60
Granted	271,753	6.14	
Exercised	(474,799)	1.92	
Forfeited	(49,205)	15.32	
Balances at September 30, 2016	2,533,421	$ 7.33	7.02

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 $0.4 million and $0.6 million for the three months ended September 30, 2016 and 2015, respectively. Stock-based compensation expense was $1.2 million and $1.4 million for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, there was $3.5 million of unrecognized compensation costs related to stock options. The expense is recorded within the operating expense components in the statement of operations based on the recipients receiving the awards. These costs are expected to be recognized over a weighted average period of 2.57 years.

d.Restricted Stock Units

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

Activity related to RSUs is set forth below:

	Number of shares	Weighted average grant date fair value
Balances at December 31, 2015	17,993	$ 3.88
Granted	557,240	8.21

Vested	(3,375)	3.88
Balances at September 30, 2016	571,858	$ 8.09

Stock-based compensation expense for RSUs for the three months ended September 30, 2016 and 2015 was $0.5 million and $0, respectively. Stock-based compensation expense for RSUs for the nine months ended September 30, 2016 and 2015 was $1.1 million and $0, respectively. As of September 30, 2016, there was $3.5 million of total unrecognized compensation cost related to non-vested RSU awards. The cost is expected to be recognized over a weighted average period of 2.11 years.

e.Employee Stock Purchase Plan

The Company’s board of directors adopted the 2014 Employee Stock Purchase Plan, or ESPP, in July 2014, and the stockholders approved the ESPP in October 2014. The ESPP allows eligible employees to purchase shares of the Company’s common stock at a discount through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The ESPP provides 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.

As of September 30, 2016, the number of shares of common stock reserved for issuance under the ESPP was 584,563. During the nine months ended September 30, 2016, employees purchased 122,667 shares of common stock at a weighted

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average price of $6.14 per share. As of September 30, 2016, the number of shares of common stock available for future issuance was 417,646.

The Company estimated the fair value of employee stock purchase rights using the Black-Scholes model. Stock-based compensation expense related to the ESPP was $0.1 million and $0.1 million for the three months ended September 30, 2016 and 2015, respectively. Stock-based compensation expense related to the ESPP was $0.3 million and $0.3 million for the nine months ended September 30, 2016 and 2015, respectively.

10.Income Taxes

The Company operates in several tax jurisdictions and is subject to taxes in each jurisdiction in which it conducts business. To date, the Company has incurred cumulative net losses and maintains a full valuation allowance on its net deferred tax assets due to the uncertainty surrounding realization of such assets. 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 and a corresponding deferred tax liability associated with these indefinite lived intangible assets. Tax expense was $48,000 and $0 for the three and nine months ended September 30, 2016 and 2015, respectively.

11.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 $0.1 million and $0.1 million for the three months ended September 30, 2016 and 2015, respectively. Rent expense was $0.4 million and $0.4 million for the nine months ended September 30, 2016 and 2015, 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.

On September 25, 2015, a lawsuit styled as a class action of the Company's stockholders was filed in the United States District Court for the Central District of California. The lawsuit names the Company and certain of its officers as defendants, or Sientra Defendants, and alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, in connection with allegedly false and misleading statements concerning the Company's business, operations, and prospects. The plaintiff seeks damages and an award of reasonable costs and expenses, including attorneys' fees. On November 24, 2015, three stockholders (or groups of stockholders) filed motions to appoint lead plaintiff(s) and to approve their selection on lead counsel. On December 10, 2015, the court entered an order appointing lead plaintiffs and approving their selection of lead counsel. On February 19, 2016, lead plaintiffs filed their consolidated amended complaint, which added a claim under Section 11 of the Securities Act and named as defendants the underwriters associated with the Company's follow-on public offering that closed on September 23, 2015, or the Underwriter Defendants. On March 21, 2016, the Sientra Defendants and the Underwriter Defendants each filed a motion to dismiss, or the Motions to Dismiss, the consolidated amended complaints. On April 20, 2016, lead plaintiffs filed their opposition to the Motions to Dismiss, and the Sientra Defendants and Underwriter Defendants filed separate replies on May 5, 2016. On June 9, 2016, the court granted in part and denied in part the Motions to Dismiss. On July 14, 2016, the Sientra Defendants moved the court to reconsider its June 9, 2016 order and grant the Motions to Dismiss in full. On August 4, 2016, lead plaintiffs filed an opposition to the motion for reconsideration. On August 12, 2016, the court denied the motion for reconsideration, and the Sientra Defendants and the Underwriter Defendants each filed an answer to the consolidated amended complaint.

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On October 28, November 5, and November 19, 2015, three lawsuits styled as class actions of the Company's stockholders were filed in the Superior Court of California for the County of San Mateo. The lawsuits name the Company, certain of its officers and directors, and the underwriters associated with the Company's follow-on public offering that closed on September 23, 2015 as defendants. The lawsuits allege violations of Sections 11, 12(a)(2), and 15 of the Securities Act in connection with allegedly false and misleading statements in the Company's offering documents associated with the follow-on offering concerning its business, operations, and prospects. The plaintiffs seek damages and an award of reasonable costs and expenses, including attorneys' fees. On December 4, 2015, defendants removed all three lawsuits to the United States District Court for the Northern District of California. On December 15 and December 16, 2015, plaintiffs filed motions to remand the lawsuits back to San Mateo Superior Court, or the Motions to Remand. On January 19, 2016, defendants filed their opposition to the Motions to Remand, and plaintiffs filed their reply in support of the Motions to Remand on January 26, 2016.

On May 20, 2016, the United States District Court for the Northern District of California granted plaintiffs' Motions to Remand, and the San Mateo Superior Court received the remanded cases on May 27, 2016. On July 19, 2016, the San Mateo Superior Court consolidated the three lawsuits. On August 2, 2016, plaintiffs filed their consolidated complaint. On August 5, 2016, defendants filed a motion to stay all proceedings in favor of the class action filed in the United States District Court for the Central District of California.

On September 13, 2016, the parties to the actions pending in the San Mateo Superior Court and the United States District Court for the Central District of California signed a memorandum of understanding that sets forth the material deal points of a settlement that covers both actions and includes class-wide relief. On September 13, 2016 and September 20, 2016, respectively, the parties filed notices of settlement in both courts. On September 22, 2016, the United States District Court for the Central District of California stayed that action pending the court's approval of a settlement. On September 23, 2016, the San Mateo Superior Court stayed that action as well pending the court's approval of a settlement.

As a result of these developments, the Company has determined a probable loss has been incurred and has recognized a net charge to earnings of approximately $1.6 million within general and administrative expense which is comprised of the loss contingency of approximately $10.9 million, net of expected insurance proceeds of approximately $9.3 million. The Company has classified the loss contingency as "legal settlement payable" and the expected insurance proceeds as "insurance recovery receivable" on the accompanying condensed balance sheets. While it is possible that the Company may incur a loss greater than the amounts recognized in the accompanying interim financial statements, the Company is unable to determine a range of possible losses greater than the amount recognized.

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

12.Subsequent Events

a. Acquisition of Certain Assets of Specialty Surgical Products, Inc.

On November 2, 2016, pursuant to an Asset Purchase Agreement, or Purchase Agreement, by and among the Company and Specialty Surgical Products, Inc., or SSP, the Company acquired certain assets, consisting of the Dermaspan™, Softspan™, Allox® and Allox2® tissue expanders, from SSP for the purchase price of $5.0 million in cash, along with contingent cash payments of up to an additional $2.0 million if certain future revenue targets are met. The assets acquired consist of accounts receivable, inventory, consigned inventory, tooling, intellectual property and regulatory approvals, specified contracts and the associated assumed liabilities. The acquisition of these products

aligns with the Company's business development objectives and adds complementary products that serve the needs of its customers.

The Company expects to account for the transaction as a business combination and is in the process of determining the allocation of the purchase price to acquired assets and assumed liabilities. A determination of the acquisition-date fair values of the assets acquired and the liabilities assumed is pending the completion of an independent appraisal and other evaluations and therefore further disclosures have not been made.

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Pro forma results of operations have not been presented because the effect of the business combination was not material to the Company's condensed results of operations.

b. Resignation of Matthew Pigeon as Chief Financial Officer; Separation Agreement

On October 26, 2016, Matthew Pigeon resigned from his position as Chief Financial Officer, Senior Vice President and Treasurer of the Company. The Company entered into a Separation Agreement, or the Separation Agreement, with Mr. Pigeon on November 7, 2016, pursuant to which, Mr. Pigeon is entitled to receive: (i) twelve (12) months of his base salary as in effect on the separation date paid in equal installments plus a payment of $78,750 for the remaining 2016 bonus earned by Mr. Pigeon in connection with the completion of the fiscal year prior to the separation date, consisting of (a) $52,500 payable upon separation and (b) $26,250 to be paid on January 30, 2017, and (ii) up to twelve (12) months of company-paid health insurance premiums to continue his coverage. The benefits provided for in the Separation Agreement are consistent with the benefits that Mr. Pigeon would have been entitled to receive under his Amended and Restated Employment Agreement had Mr. Pigeon been terminated without cause.

c. Appointment of Patrick F. Williams as Chief Financial Officer; Employment Agreement

On October 26, 2016, the Company appointed Patrick F. Williams as its Chief Financial Officer, Senior Vice President and Treasurer. In connection with the appointment, the Company entered into an Employment Agreement, or the Employment Agreement, with Mr. Williams on October 26, 2016, pursuant to which: (i) Mr. William’s annual base salary will be three hundred fifty thousand dollars, (ii) Mr. Williams shall be eligible to earn an annual discretionary performance-based bonus of up to 50% of his base salary, and (iii) for the partial 2016 calendar year, Mr. Williams shall also be eligible for a discretionary performance-based bonus paid on a pro-rata basis to the extent that it is determined by the compensation committee of the board of directors. Additionally, on October 26, 2016, the compensation committee granted to Mr. Williams a nonqualified stock option under the Inducement Plan to purchase 300,000 shares of the Company’s common stock at a per share exercise price equal to the closing price of the Company’s common stock on the grant date. The stock options shall vest as follows: (i) 200,000 option shares shall vest and be exercisable as to 50,000 option shares on the one-year anniversary of the grant date, and as to 150,000 option shares, in thirty-six equal consecutive monthly installments commencing on the thirteenth month anniversary of the grant date, and (ii) 100,000 option shares shall vest and be exercisable in accordance with performance criteria established by the compensation committee. Mr. Williams is also entitled to participate in all employee benefit programs for which he is eligible.

d. Inducement Plan Increase

On October 26, 2016, the board of directors approved an increase to the share reserve under the Inducement Plan from 180,000 shares to 400,000 shares in order to cover in part the 300,000 share inducement grant awarded to Mr. Williams in connection with his appointment as the Company’s new Chief Financial Officer, Senior Vice President and Treasurer. As of October 26, 2016, 70,000 shares remain available for future awards under the Inducement Plan.

e. Silimed Litigation

On November 6, 2016, Silimed filed a lawsuit in the U.S. District Court for the Southern District of New York naming the Company as the defendant and alleging breach of contract of the Amended and Restated Exclusivity Agreement executed by the Company and Silimed in April 2007, or the 2007 Agreement, unfair competition, unjust enrichment, and misappropriation of trade secrets against the Company. In its complaint, Silimed alleges that the Company's theft, misuse, and improper disclosure of Silimed's confidential, proprietary, and trade secret manufacturing information was done in order for the Company to develop its own manufacturing capability that the Company intends to use to manufacture its PMA-approved products. Silimed is seeking a declaration that the Company is in material breach of the 2007 Agreement, a preliminary and permanent injunction to prevent the Company's allegedly wrongful use and disclosure of Silimed's confidential and proprietary information, as well as unquantified compensatory and punitive damages.

The Company believes Silimed's claims are legally and factually unsupported and intends to defend this lawsuit vigorously.

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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, 2015 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, 2015, filed with the Securities and Exchange Commission on March 10, 2016, or the Annual Report. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "Sientra," "the Company," "we," "us" and "our" refer to Sientra, Inc.

Forward-Looking Statements

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

Overview

We are a medical aesthetics company committed to making a difference in patients' lives by enhancing their body image, growing their self esteem and restoring their confidence. We were founded to provide greater choices to board certified plastic surgeons and patients in need of medical aesthetics products. We have developed a broad portfolio of products with technologically differentiated characteristics, supported by independent laboratory testing and strong clinical trial outcomes. We sell our breast implants and breast tissue expanders, or Breast Products, exclusively to board certified and board admissible plastic surgeons and tailor our customer service offerings to their specific needs, which we believe helps secure their loyalty and confidence. We began selling bioCorneum®, an advanced silicone scar treatment, or Scar Management Products, directly to physicians after we acquired bioCorneum® from Enaltus on March 9, 2016.

Our primary products are silicone gel breast implants for use in breast augmentation and breast reconstruction procedures, which we offer in over 195 variations of shapes, sizes, fill volumes 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®. Our breast implants offer a desired balance between strength, shape retention and softness due to the high strength, cohesive silicone gel used in our manufacturing process. TRUE Texture® provides texturing on the implant shell that is designed to reduce the incidence of malposition, rotation and capsular contracture. 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, or the Study, of our breast implants in 1,788 women across 36 investigational sites in the United States, which included 3,506 implants (approximately 53% of which were smooth and 47% of which were textured). Our clinical trial is the largest prospective, long term safety and effectiveness pivotal study of breast implants in the United States and includes the largest magnetic resonance imaging, or MRI, cohort with 571 patients. The

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MRI cohort is a subset of study patients that underwent regular MRI screenings in addition to the other aspects of the clinical trial protocol prior to FDA approval. Post-approval, all patients in the Study are subject to serial MRI screenings as part of the clinical protocol. The clinical data we collected over a nine year follow up period demonstrated rupture rates, capsular contracture rates and reoperation rates that were comparable to or better than those of our competitors, at similar time points. In addition to our pivotal study, our clinical data is supported by our Continued Access Study of 2,497 women in the United States. We have also commissioned a number of bench studies run by independent laboratories that we believe further demonstrate the advantages of our breast implants over those of our competitors.

We sell our Breast Products exclusively to board certified and board admissible plastic surgeons, as determined by the American Board of Plastic Surgery, who we refer to as Plastic Surgeons. These surgeons have completed the extensive multi year plastic surgery residency training required by the American Board of Plastic Surgery. While aesthetic procedures are performed by a wide range of medical professionals, including dermatologists, otolaryngologists, obstetricians, gynecologists, dentists and other specialists, the majority of aesthetic surgical procedures are performed by Plastic Surgeons. Plastic Surgeons are thought leaders in the medical aesthetics industry. According to the American Board of Plastic Surgery, there are approximately 6,500 board certified plastic surgeons in the United States. We seek to provide Plastic Surgeons with differentiated services, including enhanced customer service offerings, a ten year limited warranty that we believe is the best in the industry based on: providing patients with the largest cash reimbursement for certain out of pocket costs related to revision surgeries in a covered event; a lifetime no charge implant replacement program for covered ruptures; and our industry first CapCon Care Program, or C3 Program, through which we offer no charge replacement implants to breast augmentation patients who experience capsular contracture within the first five years after implantation with our smooth or textured breast implants.

Between October 9, 2015 and March 1, 2016, we voluntarily suspended the sale of all Sientra devices manufactured by our sole manufacturer and supplier, Silimed, due to the suspension of Silimed's CE certificate by TUV SUD, Silimed's notified body under EU regulations, followed by Brazilian regulatory inquiries and a temporary suspension by the Brazilian regulatory agency ANVISA and the Department of the Secretary of State of Rio de Janeiro of the manufacturing and shipment of all medical devices made by Silimed, and recommended that plastic surgeons discontinue implanting the devices until further notice. See Note 1c to our Condensed Financial Statements for more information on the history of these developments with Silimed.

After ongoing discussions with the FDA and our own review of the matter with the assistance of independent experts in quality management systems, Good Manufacturing Practices, or GMP, and data-based risk assessment, on March 1, 2016, we lifted the temporary hold on sales and also sent a letter to our Plastic Surgeons informing them of our market re-entry plans. We have limited inventory of our Breast Products manufactured by Silimed due to (i) the fire on October 22, 2015 at the manufacturing building where Silimed primarily manufactured our breast implants, and (ii) Silimed's inability to manufacture products (only recently reinstated by ANVISA on July 11, 2016) for commercial sale in the U.S. at their alternate facility, which will require Sientra to submit a PMA supplement for the alternate facility and require the manufacturing operations to receive a validation of U.S. FDA standards and a successful FDA inspection, the timing of which is uncertain. Accordingly, we developed and communicated to our Plastic Surgeons a controlled market re-entry plan designed to optimize our inventory supply.

There are several uncertainties regarding the events involving Silimed that may continue to have a material unfavorable impact on our net sales of Breast Products manufactured by Silimed, including the impact on inventory levels and inventory adjustments, and uncertainty of our customers' responsiveness to our market re-entry plans after we had imposed our voluntary hold on the sale and implanting of all Sientra devices manufactured by Silimed between October 9, 2015 and March 1, 2016. See "Risk Factors — Risks Relating to Our Business and Our Industry" for

further detail.

Our existing manufacturing contract with Silimed expires on its terms on April 1, 2017. We cannot provide assurance that Silimed will be able to qualify its alternate facility and manufacture and ship new products to us. Moreover, on November 6, 2016, Silimed filed a lawsuit against us alleging, among other things, a material breach of the existing manufacturing contract. Accordingly, we have increasingly focused our efforts on identifying and qualifying an alternate manufacturing supplier.

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On August 9, 2016, we announced our collaboration with Vesta Intermediate Funding, Inc., or Vesta, pursuant to which we are working with Vesta towards establishing a dedicated contract manufacturing facility for our Breast Products. Vesta is a Lubrizol LifeSciences Company and leading medical device contract manufacturer of silicone products and other medical devices headquartered in Wisconsin.

We sell our products in the United States through a direct sales organization consisting of 45 employees, including 38 sales representatives and 7 sales managers, as of September 30, 2016.

Recent Developments

The following is a summary of significant developments affecting our business that have occurred since the filing of our Quarterly Report on Form 10-Q for the period ended June 30, 2016. For additional developments see the Annual Report and our Quarterly Reports on Form 10-Q for the period ended March 31, 2016 and June 30, 2016.

- On November 2, 2016, we entered into an asset purchase agreement with Specialty Surgical Products, Inc. to acquire the Dermaspan™, Softspan™, Allox® and Allox2® tissue expanders for the purchase price of $5.0 million in cash, along with contingent cash payments of up to an additional $2.0 million if certain future revenue targets are met. The acquisition of these products aligns with our business development objectives and adds complementary products that serve the needs of our customers.
- On October 26, 2016, we appointed Patrick F. Williams as our new Chief Financial Officer, Senior Vice President and Treasurer in connection with the resignation of Matthew Pigeon, the Company's former Chief Financial Officer, Senior Vice President and Treasurer.

- On October 28, 2016, we announced that we had signed a memorandum of understanding that sets forth the material deal points of a settlement that covers all actions related to our outstanding shareholder class-action litigation. See Part II, Item 1 – Legal Proceedings for more information. The settlement, which will be memorialized in a stipulation of settlement, is subject to certain conditions, including applicable court approvals. As a result of these developments, we determined that a probable loss has been incurred and have recognized a net charge to earnings of approximately $1.6 million within general and administrative expense, which is comprised of the loss contingency of approximately $10.9 million, net of expected insurance proceeds of approximately $9.3 million. We have classified the loss contingency as "legal settlement payable" and the expected insurance proceeds as "insurance recovery receivable" on the accompanying condensed balance sheets.

- On November 6, 2016, Silimed filed a lawsuit in the U.S. District Court for the Southern District of New York naming Sientra as the defendant and alleging breach of our existing manufacturing contract with Silimed, or the 2007 Agreement, unfair competition, unjust enrichment, and misappropriation of trade secrets against us. Silimed is seeking a declaration that we are in material breach of the 2007 Agreement, a preliminary and permanent injunction to prevent our allegedly wrongful use and disclosure of Silimed's confidential and proprietary information, as well as unquantified compensatory and punitive damages. We believe Silimed's claims are legally and factually unsupported and intend to defend this lawsuit vigorously. For more information, See Part II, Item 1 – Legal Proceedings and Part II, Item 1A – Risk Factors – "We are in litigation with Silimed, our sole source supplier of our silicone gel breast

implants and certain other products."

Components of Operating Results

Net Sales

We recognize revenue, net of sales discounts and estimated returns, as the customer has a standard six-month window to return purchased Breast Products. We commenced sales of our Breast Products in the United States in the second quarter of 2012 and our Breast Products have historically accounted for substantially all of our net sales. However, sales of our Breast Products accounted for 77% and 97% of our net sales for the three months ended September 30, 2016 and 2015, respectively, and 78% and 98% of our net sales for the nine months ended September 30, 2016 and 2015, respectively. The percentage decrease in sales of Breast Products for the 2016 periods reflects the combined effect of the temporary

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hold on sales and implanting of Breast Products until March 1, 2016, our controlled re-entry to market designed to optimize our supply of Breast Products inventory and the commercial introduction of our Scar Management Products as a result of the acquisition of bioCorneum® on March 9, 2016. Sales of Scar Management Products are included in the results of operations from the date of acquisition and accounted for 20% of our net sales for the three months ended September 30, 2016 and 19% of our net sales for the nine months ended September 30, 2016.

We expect that, in the future, assuming a favorable outcome of the aforementioned recent events with Silimed or the successful establishment and transition of our manufacturing process to Vesta, that 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.

Cost of Goods Sold and Gross Margin

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

Our Breast Products and certain other products are currently manufactured in Brazil by Silimed. Under our contract with Silimed, each particular style of implant has a fixed unit cost. Our bioCorneum® Scar Management Products are manufactured in the U.S. by Formulated Solutions, LLC, or Formulated Solutions. Under our contract with Formulated Solutions, each particular product 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 shipments 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 quantity of units sold, manufacturing price increases, the changing mix of products sold with different gross margins, overhead costs 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 fluctuate in future periods as a result of headcount and timing of our marketing programs. However, we generally expect these costs will increase in absolute dollars.

Research and Development Expenses

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

We expect our R&D expenses to vary as different development projects are initiated, including improvements to our existing products, expansions of our existing product lines, new product acquisitions and our FDA required PMA 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.

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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 other outside consultants, corporate insurance, employee benefits, facilities and information technologies expenses. In 2015, G&A expenses also include the federal excise tax on the sale of our medical devices in the United States.

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

Other Income (Expense), net

Other income (expense), net primarily consists of interest income and changes in the fair value of common stock warrants.

Income Taxes

Income tax expense consists of an estimate for income taxes based on the projected income tax expense for the period ending December 31, 2016. We operate in several tax jurisdictions and are subject to taxes in each jurisdiction in which we conduct business. To date, we have incurred cumulative net losses and maintain a full valuation allowance on our net deferred tax assets due to the uncertainty surrounding realization of such assets. However, we have 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 have provided for tax expense and a corresponding deferred tax liability associated with these indefinite lived intangible assets.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our unaudited condensed financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues

and expenses incurred during the reported periods. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in Note 2 of the "Notes to Financial Statements" in our audited financial statements included in the Annual Report. There have been no material changes to our critical accounting policies and estimates from those disclosed in the Annual Report.

Recent Accounting Pronouncements

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

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Results of Operations

Comparison of the Three Months Ended September 30, 2016 and 2015

The following table sets forth our results of operations for the three months ended September 30, 2016 and 2015:

	Three Months Ended September 30,	
	2016	2015
	(unaudited, in thousands)	
Statement of operations data		
Net sales	$ 6,531	$ 9,929
Cost of goods sold	1,814	2,933
Gross profit	4,717	6,996
Operating Expenses		
Sales and marketing	5,137	6,282
Research and development	2,052	2,143
General and administrative	7,302	4,140
Total operating expenses	14,491	12,565
Loss from operations	(9,774)	(5,569)
Other income (expense), net		
Interest income	16	12
Interest expense	(105)	(1,608)
Other (expense) income, net	(52)	561
Total other income (expense), net	(141)	(1,035)
Loss before income taxes	(9,915)	(6,604)
Income taxes	48	—
Net loss	$ (9,963)	$ (6,604)

Net Sales

Net sales decreased $3.4 million, or 34.2%, to $6.5 million for the three months ended September 30, 2016, as compared to $9.9 million for the three months ended September 30, 2015. Net sales of our Breast Products decreased $4.6 million to $5.0 million for the three months ended September 30, 2016, as compared to $9.6 million for the three months ended September 30, 2015, as a result of our controlled re-entry to market designed to optimize our supply of Breast Product inventory. The decrease in Breast Product net sales was offset by $1.3 million of Scar Management Product net sales for the three months ended September 30, 2016.

As of September 30, 2016, our sales organization included 38 sales representatives as compared to 45 sales representatives as of September 30, 2015.

Cost of Goods Sold and Gross Margin

Cost of goods sold decreased $1.1 million, or 38.2%, to $1.8 million for the three months ended September 30, 2016, as compared to $2.9 million for the three months ended September 30, 2015. This decrease was primarily due to a decrease in sales volume driven by our controlled re-entry into the marketplace.

The gross margins for the three months ended September 30, 2016 and 2015 were 72.2% and 70.5%, respectively. This increase was primarily due to a decrease in inventory write-offs of 1.1 percentage points and a decrease in warranty costs of 0.6 percentage points. The decrease in inventory write-offs resulted from the timing and recognition of products anticipated to expire prior to being sold. The decrease in warranty costs resulted from improved rupture rates as indicated by our ongoing clinical studies.

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Sales and Marketing Expenses

Sales and marketing decreased $1.1 million, or 18.2%, to $5.1 million for the three months ended September 30, 2016, as compared to $6.3 million for the three months ended September 30, 2015. This decrease consisted primarily of a $0.7 million decrease in employee related costs as a result of a decrease in headcount, and a $0.3 million decrease in marketing costs due to lower no charge customer shipping costs and less direct marketing activities.

Research and Development Expenses

There was no material change in the amount of R&D expenses for the three months ended September 30, 2016 and 2015. R&D expenses were consistent in both periods.

General and Administrative Expenses

G&A expenses increased $3.2 million, or 76.4%, to $7.3 million for the three months ended September 30, 2016, as compared to $4.1 million for the three months ended September 30, 2015. This increase consisted primary of a $1.5 million increase in outside legal counsel and litigation expenses, a $1.6 million probable loss incurred related to the proposed settlement of the class action securities litigation, and a $0.2 million increase in stock compensation expense.

Other Income (Expense), net

Other income (expense), net for the three months ended September 30, 2016 was primarily associated with interest income on cash held in a money market account, interest paid on inventory payable and expense recognized for the change in fair value of warrants. Other income (expense), net for the three months ended September 30, 2015 was primarily associated with interest income on cash held in a money market account, interest expense on our Oxford term loans, which were repaid in full in the fourth quarter of 2015 and income recognized for the change in fair value of warrants.

Income Tax Expense

Income tax expense for the three months ended September 30, 2016 was associated with a deferred tax liability associated with indefinite lived intangibles from the bioCorneum® acquisition that cannot offset our deferred tax assets. There was no income tax expense for the three months ended September 30, 2015.

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Comparison of the Nine Months Ended September 30, 2016 and 2015

The following table sets forth our results of operations for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30,	
	2016	2015
	(unaudited, in thousands)	
Statement of operations data		
Net sales	$ 14,246	$ 36,569
Cost of goods sold	4,319	10,107
Gross profit	9,927	26,462
Operating Expenses		
Sales and marketing	16,533	20,087
Research and development	7,370	4,896
General and administrative	17,945	11,804
Total operating expenses	41,848	36,787
Loss from operations	(31,921)	(10,325)
Other income (expense), net		
Interest income	47	19
Interest expense	(118)	(2,947)
Other (expense) income, net	(54)	273
Total other income (expense), net	(125)	(2,655)
Loss before income taxes	(32,046)	(12,980)
Income taxes	48	—
Net loss	$ (32,094)	$ (12,980)

Net Sales

Net sales decreased $22.3 million, or 61.0%, to $14.2 million for the nine months ended September 30, 2016, as compared to $36.6 million for the nine months ended September 30, 2015. Net sales of our Breast Products decreased $24.6 million to $11.1 million for the nine months ended September 30, 2016, as compared to $35.7 million for the nine months ended September 30, 2015, as a result of both our voluntary hold on the sale and implanting of all Sientra devices manufactured by Silimed between October 9, 2015 and March 1, 2016 and our controlled re-entry to market designed to optimize our supply of Breast Products inventory. The decrease in Breast Product net sales were offset by $2.7 million of Scar Management Product net sales for the nine months ended September 30, 2016, following the acquisition of bioCorneum® on March 9, 2016.

Cost of Goods Sold and Gross Margin

Cost of goods sold decreased $5.8 million, or 57.3%, to $4.3 million for the nine months ended September 30, 2016, as compared to $10.1 million for the nine months ended September 30, 2015. This decrease was due to a decrease in sales volume driven by both our voluntary hold on sales from October 9, 2015 to March 1, 2016 and our controlled re-entry into the marketplace.

The gross margins for the nine months ended September 30, 2016 and 2015 were 69.7% and 72.4%, respectively. The decrease for the nine months ended September 30, 2016 was primarily due to increased inventory write-offs of 2.8 percentage points and increased fixed overhead costs of 0.8 percentage points, partially offset by increased sales of our Scar Management Products, which generally have higher gross margins. The increase in inventory write-offs resulted from the timing and recognition of products anticipated to expire prior to being sold. The increase in fixed overhead costs was a result of our voluntary hold on the sale and implanting of all Sientra devices manufactured by Silimed between October 9, 2015 and March 1, 2016.

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Sales and Marketing Expenses

Sales and marketing decreased $3.6 million, or 17.7%, to $16.5 million for the nine months ended September 30, 2016, as compared to $20.1 million for the nine months ended September 30, 2015. This decrease consisted primarily of a $2.1 million decrease in marketing costs due to lower no charge customer shipping costs and less direct marketing activities as well as a $1.3 million decrease in employee-related costs as a result of a decrease in headcount.

Research and Development Expenses

R&D expenses increased $2.5 million, or 50.5%, to $7.4 million for the nine months ended September 30, 2016, as compared to $4.9 million for the nine months ended September 30, 2015. This increase was primarily due to a $2.3 million increase in product development costs and consulting fees.

General and Administrative Expenses

G&A expenses increased $6.1 million, or 52.0%, to $17.9 million for the nine months ended September 30, 2016, as compared to $11.8 million for the nine months ended September 30, 2015. This increase consisted primary of a $4.0 million increase in outside legal counsel and litigation expenses, a $1.6 million probable loss incurred related to the proposed settlement of the class action securities litigation, a $0.7 million increase in stock compensation expense and a $0.5 million increase in amortization expense related to the bioCorneum® acquisition, offset by a $0.6 million decrease in medical device excise tax costs as a result of the suspension of the tax during calendar years 2016 and 2017.

Other Income (Expense), net

Other income (expense), net for the nine months ended September 30, 2016 was primarily associated with interest income on cash held in a money market account, interest paid on inventory payable and expense recognized for the change in fair value of warrants. Other income (expense), net for the nine months ended September 30, 2015 was primarily associated with interest income on cash held in a money market account, interest expense on our Oxford term loans, which were repaid in full in the fourth quarter of 2015 and income recognized for the change in fair value of warrants.

Income Tax Expense

Income tax expense for the nine months ended September 30, 2016 was associated with a deferred tax liability associated with indefinite lived intangibles from the bioCorneum® acquisition that cannot offset the deferred tax asset. There was no income tax expense for the nine months ended September 30, 2015.

Liquidity and Capital Resources

Since our inception, we have incurred significant net operating losses and anticipate that our losses will continue in the near term. We expect our operating expenses will continue to grow as we expand our operations. We will need to generate significant net sales to achieve profitability. To date, we have funded our operations primarily with proceeds from the sales of preferred stock, borrowings under our term loans, sales of our products since 2012, and the proceeds from the sale of our common stock in public offerings. As of September 30, 2016, we had no long-term debt.

In November 2014, we completed our IPO of common stock in which we sold 5,750,000 shares at a price of $15.00 per share, raising approximately $77.0 million in net proceeds after deducting underwriting discounts and commissions of approximately $6.0 million and offering expenses of approximately $3.2 million.

On September 23, 2015, we completed a follow-on public offering of common stock in which we sold 3,000,000 shares at a price of $22.00 per share, raising approximately $61.4 million in net proceeds after deducting underwriting discounts and commissions of approximately $4.0 million and offering expenses of approximately $0.6 million.

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As of September 30, 2016, we had $79.3 million in cash and cash equivalents. Our historical cash outflows have primarily been associated with research and development activities, especially related to obtaining FDA approval for our breast implant portfolio and complying with the FDA's post-approval requirements, the Mentor litigation, activities relating to commercialization and increases in working capital, including the purchase of inventory as well as the expansion of our sales force and marketing programs. In addition, we have used cash to fund recent acquisitions, including $5.0 million for the acquisition of assets from Specialty Surgical Products, Inc., which closed on November 2, 2016. We believe that our available cash on hand will be sufficient to satisfy our liquidity requirements for at least the next 12 months. However, we expect that the recent events involving Silimed, including our voluntary hold on the sale and implanting of all Sientra devices manufactured by Silimed between October 9, 2015 and March 1, 2016, our uncertainty regarding the amount of additional expenses we may incur in connection with regulatory inquiries, expenses we may continue to incur in connection with establishing new manufacturing capacity with Vesta, as well as expenses we may incur defending against litigation claims, including the Silimed litigation, may have a material effect on our future cash outflows and our liquidity. As a result, we may be required to seek additional funds in the future from public or private offerings of our capital stock, borrowings under term loans or from other sources.

Cash Flows

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

	Nine Months Ended September 30,	
	2016	2015
	(unaudited, in thousands)	
Net cash (used in) provided by:		
Operating activities	$ (27,507)	$ (8,027)
Investing activities	(7,675)	(844)
Financing activities	1,663	61,081
Net change in cash and cash equivalents	$ (33,519)	$ 52,210

Cash used in operating activities

Net cash used in operating activities was $27.5 million during the nine months ended September 30, 2016, as compared to $8.0 million during the nine months ended September 30, 2015. The increase in cash used in operating activities between the nine months ended September 30, 2016 and 2015 was primarily associated with the increase in net loss of $19.1 million and a decrease in customer deposits.

Cash used in investing activities

Net cash used in investing activities was $7.7 million during the nine months ended September 30, 2016, as compared to $0.8 million during the nine months ended September 30, 2015. The increase in cash used in investing activities between the nine months ended September 30, 2016 and 2015 was primarily due to $6.8 million cash outflow for the acquisition of bioCorneum®.

Cash provided by financing activities

Net cash provided by financing activities was $1.7 million during the nine months ended September 30, 2016, as compared to $61.1 million during the nine months ended September 30, 2015. The decrease in cash provided by financing activities was primarily the result of $62.0 million in cash proceeds from the follow-on offering in 2015.

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

· the timing and availability of alternative manufacturing sources, including Vesta, and costs associated with procuring and qualifying such manufacturing capacity;

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- net sales generated by our Breast Products, Scar Management Products, and any other future products that we may develop and commercialize;
- costs associated with expanding our sales force and marketing programs;
- cost associated with developing and commercializing our proposed products or technologies;
- expenses we incur in connection with potential litigation or governmental investigations;
- cost of obtaining and maintaining regulatory clearance or approval for our current or future products;
- cost of ongoing compliance with regulatory requirements;
- anticipated or unanticipated capital expenditures; and
- unanticipated G&A expenses.

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

- support of our sales and marketing efforts related to our current and future products;

- new product acquisition and development efforts, including for the purchase of assets from SSP;
- facilities expansion needs;
- investment in inventory required to meet customer demands; and
- expenses we incur in connection with defending against litigation, including the Silimed litigation.

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

Contractual Obligations and Commitments

As of September 30, 2016, there have been no material changes to our contractual obligations and commitments outside the ordinary course of business from those disclosed under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations” in the Annual Report.

Off-Balance Sheet Arrangements

During the periods presented we did not have, nor do we currently have, any off-balance sheet arrangements as defined under SEC rules.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2016, we had $79.3 million in cash and cash equivalents. We generally hold our cash in checking accounts and interest-bearing money market accounts. Our exposure to market risk related to interest rate sensitivity is affected by changes in the general level of U.S. interest rates. Due to the short-term maturities of our cash equivalents and the low risk profile of our investments, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our cash equivalents.

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ITEM 4: CONTROLS AND PROCEDURES

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our independent registered public accounting firm will first be required to attest to the effectiveness of our internal control over financial reporting for our Annual Report on Form 10-K for the first year we are no longer an "emerging growth company" under the JOBS Act.

As of September 30, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to achieve their stated purpose as of September 30, 2016.

An evaluation was also performed under the supervision and with the participation of our management, including our chief executive officer and our principal financial officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Class Action Shareholder Litigation

On September 25, 2015, a lawsuit styled as a class action of the Company's stockholders was filed in the United States District Court for the Central District of California. The lawsuit names the Company and certain of our officers as defendants, or the Sientra Defendants, and alleges violations of Sections 10(b) and 20(a) of the Exchange Act of 1934, as amended, or the Exchange Act, in connection with allegedly false and misleading statements concerning the

Company's business, operations, and prospects. The plaintiff seeks damages and an award of reasonable costs and expenses, including attorneys' fees. On November 24, 2015, three stockholders (or groups of stockholders) filed motions to appoint lead plaintiff(s) and to approve their selection on lead counsel. On December 10, 2015, the court entered an order appointing lead plaintiffs and approving their selection of lead counsel. On February 19, 2016, lead plaintiffs filed their consolidated amended complaint, which added a claim under Section 11 of the Securities Act and named as defendants the underwriters associated with the Company's follow-on public offering that closed on September 23, 2015, or the Underwriter Defendants. On March 21, 2016, the Sientra Defendants and the Underwriter Defendants each filed a motion to dismiss, or the Motions to Dismiss, the consolidated amended complaints. On April 20, 2016, lead plaintiffs filed their opposition to the Motions to Dismiss, and the Sientra Defendants and Underwriter Defendants filed separate replies on May 5, 2016. On June 9, 2016, the court granted in part and denied in part the Motions to Dismiss. On July 14, 2016, the Sientra Defendants moved the court to reconsider its June 9, 2016 order and grant the Motions to Dismiss in full. On August 4, 2016, lead plaintiffs filed an opposition to the motion for reconsideration. On August 12, 2016, the court denied the motion for reconsideration, and the Sientra Defendants and the Underwriter Defendants each filed an answer to the consolidated amended complaint.

On October 28, November 5, and November 19, 2015, three lawsuits styled as class actions of the Company's stockholders were filed in the Superior Court of California for the County of San Mateo. The lawsuits name the Company, certain of our officers and directors, and the underwriters associated with our follow-on public offering that closed on September 23, 2015 as defendants. The lawsuits allege violations of Sections 11, 12(a)(2), and 15 of the Securities Act in connection with

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allegedly false and misleading statements in our offering documents associated with the follow-on offering concerning our business, operations, and prospects. The plaintiffs seek damages and an award of reasonable costs and expenses, including attorneys' fees. On December 4, 2015, defendants removed all three lawsuits to the United States District Court for the Northern District of California. On December 15 and December 16, 2015, plaintiffs filed motions to remand the lawsuits back to San Mateo Superior Court, or Motions to Remand. On January 19, 2016, defendants filed their opposition to the Motions to Remand, and plaintiffs filed their reply in support of the Motions to Remand on January 26, 2016.

On May 20, 2016, the United States District Court for the Northern District of California granted plaintiffs' Motions to Remand, and the San Mateo Superior Court received the remanded cases on May 27, 2016. On July 19, 2016, the San Mateo Superior Court consolidated the three lawsuits. On August 2, 2016, plaintiffs filed their consolidated complaint. On August 5, 2016, defendants filed a motion to stay all proceedings in favor of the class action filed in the United States District Court for the Central District of California.

On September 13, 2016, the parties to the actions pending in the San Mateo Superior Court and the United States District Court for the Central District of California signed a memorandum of understanding that sets forth the material deal points of a settlement that covers both actions and includes class-wide relief. On September 13, 2016, and September 20, 2016, respectively, the parties filed notices of settlement in both courts. On September 22, 2016, the United States District Court for the Central District of California stayed that action pending the court's approval of a settlement. On September 23, 2016, the San Mateo Superior Court stayed that action as well as pending the court's approval of a settlement.

As a result of these developments, we have determined that a probable loss has been incurred and have recognized a net charge to earnings of approximately $1.6 million within general and administrative expense which is comprised of the loss contingency of approximately $10.9 million, net of expected insurance proceeds of approximately $9.3 million. We have classified the loss contingency as "legal settlement payable" and the expected insurance proceeds as "insurance recovery receivable" on the accompanying condensed balance sheets. While it is possible that we may incur a loss greater than the amounts recognized in the accompanying interim financial statements, we are unable to determine a range of possible losses greater than the amount recognized.

Silimed Litigation

On November 6, 2016, Silimed filed a lawsuit in the U.S. District Court for the Southern District of New York naming Sientra as the defendant and alleging breach of contract of the Amended and Restated Exclusivity Agreement executed by Sientra and Silimed in April 2007, or the 2007 Agreement, unfair competition, unjust enrichment, and misappropriation of trade secrets against us. In its complaint, Silimed alleges that our theft, misuse, and improper disclosure of Silimed's confidential, proprietary, and trade secret manufacturing information was done in order for us to develop our own manufacturing capability that we intend to use to manufacture our PMA-approved products. Silimed is seeking a declaration that we are in material breach of the 2007 Agreement, a preliminary and permanent injunction to prevent our allegedly wrongful use and disclosure of Silimed's confidential and proprietary information, as well as unquantified compensatory and punitive damages. We believe that Silimed's claims are legally and factually unsupported and intend to defend this lawsuit vigorously.

It is possible that additional suits will be filed, or allegations made by stockholders, with respect to these same or other matters and also naming us and/or our officers and directors as defendants. We believe we have meritorious defenses and intend to defend these lawsuits vigorously.

Item 1A. RISK FACTORS

You should carefully consider the following risk factors, as well as the other information in this report, before deciding whether to purchase, hold or sell shares of our common stock. The occurrence of any of the following risks could harm our business, financial condition, results of operations and/or growth prospects or cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and those we may make from time to time. You should consider all of the risk factors described when evaluating our business. We have marked with an asterisk (*) those risk factors that reflect changes from the risk factors included in Item 1A of the Annual Report.

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Risks Relating to Our Business and Our Industry

We may not be able to procure and qualify a new manufacturer for our silicone gel breast implants and other products previously manufactured by Silimed.*

Our existing manufacturing contract with Silimed, our sole source, third-party manufacturer located in Brazil, expires on its terms on April 1, 2017, and we cannot provide assurance that Silimed will be able to resume manufacturing and shipping new products to us.

Although we continue to collaborate with Vesta towards establishing a dedicated contract manufacturing facility for Sientra's breast implant products, we have not yet entered into a definitive manufacturing agreement with Vesta, nor has Vesta been qualified as a manufacturer to source our implants. Indeed, we must submit a PMA Supplement to the FDA before Vesta can commence manufacturing of our products, and the timing of when we submit such PMA Supplement, or when we obtain FDA approval, if any, could be subject to delays, some of which are beyond our control. Moreover, we need to negotiate the terms of a definitive manufacturing agreement with Vesta or any other alternate manufacturer and they would have to be qualified with the FDA, which is an expensive and time-consuming process. A decision to not execute a manufacturing agreement with Vesta, or any delays or our inability to qualify Vesta or negotiate a manufacturing agreement and qualify another alternate manufacturer could result in a supply interruption, which would materially adversely affect our business, financial condition and results of operations.

We are in litigation with Silimed, our sole source supplier of our silicone gel breast implants and certain other products.*

On November 6, 2016, Silimed filed a lawsuit in the U.S. District Court for the Southern District of New York naming Sientra as the defendant and alleging breach of contract of the Amended and Restated Exclusivity Agreement executed by Sientra and Silimed in April 2007, or the 2007 Agreement, unfair competition, unjust enrichment, and misappropriation of trade secrets against us. In its complaint, Silimed alleges that our theft, misuse, and improper disclosure of Silimed's confidential, proprietary, and trade secret manufacturing information was done in order for us to develop our own manufacturing capability that we intend to use to manufacture our PMA-approved products. Silimed is seeking a declaration that we are in material breach of the 2007 Agreement, a preliminary and permanent injunction to prevent our allegedly wrongful use and disclosure of Silimed's confidential and proprietary information, as well as unquantified compensatory and punitive damages.

We believe Silimed's claims are legally and factually unsupported and intend to defend this lawsuit vigorously. However, we cannot provide assurance that we will be successful in our defense. If Silimed were to succeed in establishing that any protectable Silimed IP rights are in fact unlawfully compromised by our new manufacturing

relationship with Vesta in a manner that warrants injunctive relief, we could be subject to an injunction which may delay or otherwise hinder our ability to procure and qualify an alternate manufacturing supplier of our silicone gel breast implants and certain other products, and we could be required to pay Silimed damages, which risks could have a material adverse effect on our business, results of operations and financial condition depending on the scope of any injunctive relief and the size of any damage award. Silimed also seeks declaratory and injunctive relief as to alleged IP rights that it does not claim to be directly associated with Sientra's relationship with Vesta. Adverse effects, if any, on our business results of operations and financial condition with respect to such claims are difficult to assess. In any event, we expect to incur increased costs associated with defending this lawsuit and the diversion of our management's attention from the existing business, which could also adversely affect our results of operations and financial condition.

There have been several foreign regulatory inquiries which have affected our ability to rely on Silimed, our sole source, third-party manufacturer and supplier of our silicone gel breast implants and certain other products.*

Historically, we have relied on Silimed to manufacture and supply our silicone gel breast implants and certain other products. Our existing contract with Silimed expires on its terms in April 2017 and several recent events have occurred which have affected our ability to rely on Silimed as our source for these products in the short and long term.

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On September 23, 2015, the Medicines and Healthcare Products Regulatory Agency, or the MHRA, an executive agency of the U.K., issued a press release announcing the suspension of sales and implanting in U.K. of all medical devices manufactured by Silimed following the suspension of the CE certificate of these products issued by TUV SUD, Silimed's notified body under EU regulation. The suspension of Silimed's CE certificate by TUV SUD followed TUV SUD's inspection at Silimed's manufacturing facilities in Brazil, relating to particles on Silimed breast products.

On October 2, 2015, the Brazilian regulatory agency ANVISA and the Department of the Secretary of State of the State of Rio de Janeiro announced that while they would continue to review the technical compliance related to GMP of Silimed's manufacturing facility, as a precautionary measure, they temporarily suspended the manufacturing and shipment of all medical devices made by Silimed, including products manufactured for Sientra.

On January 27, 2016, after completing an analysis and risk assessment, ANVISA announced their authorization of Silimed to resume the commercialization and use of its previously manufactured products. ANVISA concluded there was no evidence that the presence of surface particles on the silicone implants represented risks which are additional to the ones inherent in the product. However, Silimed would continue to be suspended from manufacturing and commercializing new batches of implants until an inspection is performed to reassess the fulfillment of its GMP compliance. On July 11, 2016, after completing an inspection of Silimed's facility, ANVISA announced the reinstatement of Silimed's GMP certificate and their ability to manufacture commercial products. The Brazilian GMP certificate is effective as of July 8, 2016 and is valid for two years. The Silimed facility that has been approved for manufacturing is an alternate facility to where Sientra products were previously manufactured, which was damaged by a fire on October 22, 2015, and it remains unclear as to whether the alternate facility is fully equipped to manufacture our products. Moreover, even if the alternate facility was equipped to manufacture our products, such products cannot be sold in the U.S. until a PMA supplement for the facility is submitted, Silimed's operations have been fully validated to U.S. FDA standards and they have successfully passed an FDA inspection, the timing of which remains uncertain.

Additionally, the suspension of Silimed's CE certificate by TUV SUD, and the suspension on the commercialization of Silimed's previously manufactured products in Europe by the MHRA remains in place and the determination of Silimed's manufacturing facilities is still under evaluation, and we cannot predict the outcome of these matters. The FDA and other U.S. and foreign regulatory agencies have substantial discretion to require additional testing, to impose restrictions on marketed products or on us, including the withdrawal or recall of such products from the market.

Most recently, on November 6, 2016, Silimed filed a lawsuit against us alleging, among other things, a material breach of the existing manufacturing contract. For more information, see the risk factor above entitled "We are in litigation with Silimed, our sole source supplier of our silicone gel breast implants and certain other products."

The suspension of the sale and manufacturing of Silimed's products by foreign regulatory agencies, our uncertainty regarding the resolution of the regulatory inquiries or the Silimed litigation and our uncertainty as to whether Silimed may be able to resume manufacturing our products may result in a delay or inability for us to meet our demand to supply our products in a timely manner and as a result, our ability to generate net sales may be impaired, market acceptance of our products could be adversely affected and customers may instead purchase or use our competitors' products, any of which could materially adversely and severely affect our business, financial condition and results of operations.

We depend on a positive reaction from our Plastic Surgeons and their patients to successfully re-enter the market after our voluntary suspension of the sale of Sientra devices manufactured by Silimed.*

As a result of the regulatory inquiries into Silimed products, between October 9, 2015 and March 1, 2016, we voluntarily placed a temporary hold on the sale of all Sientra devices manufactured by Silimed and recommended that plastic surgeons discontinue implanting the devices until further notice. We were in ongoing discussions with the FDA regarding European and Brazilian regulatory inquiries into Silimed products, and conducted our own review of the matter with the assistance of independent experts in quality management systems, GMP and data-based risk assessment. Breast implants have stringent standards for manufacturing and robust quality systems, but there is no specific or defined standard for particles on breast implants. Each of the FDA, ANVISA and MHRA noted that no risks to patient health have been identified in connection with implanting Silimed products, and, accordingly, there is no need to adopt any procedure or action for those patients who have received them. Additionally, the FDA and ANVISA indicated that there have been no reports of adverse

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events related to this issue. After extensive independent, third-party testing and analyses of our finished goods inventory indicated no anticipated significant safety concerns with the use of our products, including our breast implants, consistent with their FDA approval status in 2012, as of March 1, 2016, we lifted the temporary hold on the sale of our devices manufactured by Silimed and also sent a letter to our Plastic Surgeons informing them of our market re-entry plans. Although our market re-entry decision was based on extensive testing and detailed independent third party reviews, we depend on a positive reception from our Plastic Surgeon customers and their patients to be able to reestablish the market position we had prior to the voluntary suspension. Our re-entry into the market requires us to effectively and responsibly educate accounts on the results of our testing and reconfirm our strong clinical data, while providing the same high levels of customer service to which our Plastic Surgeons are accustomed. Our plastic surgery consultants are working diligently to solidify the trust and support of all our Plastic Surgeons during this important phase of our market re-entry, however, if we are not successful in re-establishing these relationships, adapting our business systems, or competing effectively in this market, our sales revenues, market share and financial performance will be affected negatively.

Contracting with any third-party manufacturer and supplier involves inherent risks and various factors outside our direct control may adversely affect the manufacturing and supply of our breast implants, tissue expanders and other products.*

Our reliance on any third-party manufacturer, including Silimed, Formulated Solutions, which supplies our Scar Management Products, and SiMatrix, a Vesta subsidiary that supplies the tissue expanders we recently acquired from Specialty Surgical Products, Inc., or SSP, involves a number of risks. Manufacturing and supply of our breast implants, tissue expanders and other products is technically challenging. Changes that our manufacturer may make outside the purview of our direct control can have an impact on our processes and quality as well as the successful delivery of products to Plastic Surgeons. Mistakes and mishandling are not uncommon and can affect production and supply. Some of these risks include:

- our products may not be manufactured in accordance with agreed upon specifications or in compliance with regulatory requirements or cGMP, or the manufacturing facilities may not be able to maintain compliance with regulatory requirements cGMP, which could negatively affect the safety or efficacy of our products or cause delays in shipments of our products;

- we may not be able to timely respond to unanticipated changes in customer orders, and if orders do not match forecasts, we may have excess or inadequate inventory of materials and components;

- our products may be mishandled while in production or in preparation for transit;

- we are subject to transportation and import and export risk, particularly given the global nature of our supply chain;

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the third-party manufacturer may discontinue manufacturing and supplying products to us for risk management reasons;

- the third-party manufacturer may lose access to critical services and components, resulting in an interruption in the manufacturing or shipment of our products;

- the third-party manufacturer may encounter financial or other hardships unrelated to us and our demand for products, which could inhibit our ability to fulfill our orders;

- there may be delays in analytical results or failure of analytical techniques that we depend on for quality control and release of products;

- natural disasters, labor disputes, financial distress, lack of raw material supply, issues with facilities and equipment or other forms of disruption to business operations affecting our manufacturer or its suppliers may occur; and

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- latent defects may become apparent after products have been released and which may result in a recall of such products.

The materialization of any of these risks and limitations inherent in a third-party manufacturing contractual relationship could significantly increase our costs, impair our ability to generate net sales, and adversely affect market acceptance of our products and customers may instead purchase or use our competitors' products, which could materially adversely and severely affect our business, financial condition and results of operations.

We have incurred significant net operating losses since inception and cannot assure you that we will achieve profitability.*

Since our inception, we have incurred significant net operating losses. As of September 30, 2016, we had an accumulated deficit of $207.4 million. To date, we have financed our operations primarily through sales of preferred stock, borrowings under our term loans, sales of our products since the second quarter of 2012, our initial public offering and our follow-on public offering of our common stock. We have devoted substantially all of our resources to the acquisition and clinical development of our products, the commercial launch of our products, the development of a sales and marketing team and the assembly of a management team to manage our business.

For the nine months ended September 30, 2016, our net loss was $32.0 million. The extent of our future operating losses and the timing of profitability are uncertain, especially in light of our inventory supply issues related to Silimed's manufacturing capacity and ongoing regulatory and qualification concerns, and the uncertainty and timing of securing and qualifying an alternate manufacturer. We will need to generate significant sales to achieve profitability, and we might not be able to do so. Even if we do generate significant sales, we might not be able to achieve, sustain or increase profitability on a quarterly or annual basis in the future. If our sales grow more slowly than we have forecasted, or if our operating expenses exceed our forecasts, our financial performance and results of operations will be adversely affected.

Our future profitability depends on the success of our Breast Products.*

Our Breast Products have historically accounted for substantially all of our net sales and we expect our Breast Products to continue to be a substantial majority of our net sales. Our inability to manage our inventory supply issues related to Silimed's ongoing manufacturing capacity and regulatory and qualification concerns, the inability to secure and qualify Vesta or another third party as an alternate manufacturer, the potential loss of market acceptance of our Breast Products, or any adverse rulings by regulatory authorities, any adverse publicity or other adverse events relating to us or our Breast Products, or the introduction of competitive products by our competitors and other third parties, would adversely affect our business, financial condition and results of operations.

Any negative publicity concerning our products could harm our business and reputation and negatively impact our financial results.*

The responses of potential patients, physicians, the news media, legislative and regulatory bodies and others to information about complications or alleged complications of our products, including the suspension of Silimed's CE certificate by TUV SUD, and the subsequent suspension by ANVISA on the manufacturing and shipment of all medical devices made by Silimed, including products manufactured for Sientra, could result in negative publicity and could materially reduce market acceptance of our products. These responses or any investigations and potential resulting negative publicity may have a material adverse effect on our business and reputation and negatively impact

our financial condition, results of operations or the market price of our common stock. In addition, significant negative publicity could result in an increased number of product liability claims against us.

We may not realize the benefits of our recent acquisitions which may be subject to additional risks and uncertainties.*

In March 2016, we acquired bioCorneum®, an advanced silicone gel scar management product from Enaltus. In November 2016, we acquired certain assets, consisting of the Dermaspan™, Softspan™, Allox® and Allox2® tissue expanders, from SSP. These acquisitions were made in an effort to add differentiated and complementary products that serve the needs of board-certified plastic surgeons while diversifying our business mix.

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Our acquisition of bioCorneum® involves risks and uncertainties including that we have limited experience in the scar management industry, our management's attention may be diverted from our existing business as we attempt to integrate bioCorneum® and the integration may not be successful. Additionally, bioCorneum+® is an over the counter product registered with the FDA, and there may be risks associated with the use of bioCorneum® including skin irritation, rash, itching or accidental application into the eye or ingestion. We also rely on Formulated Solutions as our sole source, third-party manufacturer of bioCorneum® and if Formulated Solutions becomes unable or unwilling to supply bioCorneum®, we may not be able to find an alternate supplier in a timely manner.

Our acquisition of the tissue expanders from SSP also involves risk and uncertainties including that our management's attention may be diverted from our existing business as we integrate the Dermaspan™, Softspan™, Allox® and Allox2® tissue expanders; and the integration of these products into our existing business may not be successful or we may not achieve the anticipated benefits. Additionally, these SSP products are currently manufactured and supplied by SiMatrix, a Vesta subsidiary, and if SiMatrix becomes unable or unwilling to supply these products, we may not be able to find an alternate supplier in a timely manner.

We do not know if we will be able to successfully integrate these recently acquired products into our existing business, or whether unforeseen risks associated with their uses will materialize. Our inability to integrate these acquired products effectively or realize anticipated synergies may adversely affect our business, financial condition and results of operations.

Silimed relies on a sole source, third-party supplier of the medical-grade silicone used in its silicone gel breast implants, tissue expanders and certain other products.*

Historically, Silimed has relied on Applied Silicone Corporation, or ASC, an affiliate of Nusil Technology LLC, or Nusil, as its sole source, third-party supplier of medical-grade silicone based in Santa Paula, California, for the silicone used to manufacture breast implants, tissue expanders and certain other products. Other than ASC and Nusil, there are few suppliers of medical-grade silicone available. If ASC becomes unable or unwilling to supply medical-grade silicone to Silimed or another manufacturer, an alternate supply of medical-grade silicone may not be able to be found in a timely manner, since the availability of suppliers of medical-grade silicone is limited. In addition, ASC may discontinue manufacturing and supplying products to Silimed or another manufacturer for risk management reasons. A loss of access to critical services and components would likely result in an interruption in the manufacturing or shipment of our products. In addition, if ASC were to encounter financial or other hardships, ASC may be unable to fulfill future orders. If any of these risks related to the reliance on ASC materialize, our business, financial condition and results of operations could be adversely affected.

There are inherent risks in contracting with manufacturers located outside of the United States such as in Brazil.*

Silimed's manufacturing plant is located in Brazil. There are inherent risks in contracting with manufacturers located outside of the United States such as in Brazil, including the risks of economic change, recession, labor strikes or

disruptions, political turmoil, new or changing tariffs or trade barriers, new or different restrictions on importing or exporting, civil unrest, infrastructure failure, cultural differences in doing business, lack of contract enforceability, lack of protection for intellectual property, war and terrorism. If any of these risks were to materialize, we and Silimed would both be materially adversely affected and our business, financial condition and results of operations would suffer.

We may not realize the benefits of partnerships with other companies, acquisitions of complementary products or technologies or other strategic alternatives.*

In addition to our recent acquisitions of bioCorneum® and the tissue expanders from SSP, from time to time, we may consider opportunities to partner with or acquire other businesses, products or technologies that may enhance our product platform or technology, expand the breadth of our markets or customer base or advance our business strategies. Potential partnerships or acquisitions involve numerous risks, including:

· integration of the acquired products or technologies with our existing business;

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- maintenance of uniform standards, procedures, controls and policies;
- unanticipated costs associated with partnerships or acquisitions;
- diversion of management's attention from our existing business;
- uncertainties associated with entering new markets in which we have limited or no experience; and
- increased legal and accounting costs relating to the partnerships or acquisitions or compliance with regulatory matters.

We do not know if we will be able to identify partnerships or acquisitions we deem suitable, whether we will be able to successfully complete any such partnerships or acquisitions on favorable terms or at all, or whether we will be able to successfully integrate any partnered or acquired products or technologies. Our potential inability to integrate any partnered or acquired products or technologies effectively or realize anticipated synergies may adversely affect our business, financial condition and results of operations.

We have a limited operating history and may face difficulties encountered by companies early in their commercialization in competitive and rapidly evolving markets.

We commenced operations in 2007 and began commercializing silicone gel breast implants in the second quarter of 2012. Accordingly, we have a limited operating history upon which to evaluate our business and forecast our future net sales and operating results. In assessing our business prospects, you should consider the various risks and difficulties frequently encountered by companies early in their commercialization in competitive markets, particularly companies that develop and sell medical devices. These risks include our ability to:

- implement and execute our business strategy;
- expand and improve the productivity of our sales force and marketing programs to grow sales of our existing and proposed products;
- increase awareness of our brand and build loyalty among Plastic Surgeons;
- manage expanding operations;
- respond effectively to competitive pressures and developments;
- enhance our existing products and develop new products;
- obtain regulatory clearance or approval to enhance our existing products and commercialize new products;
- perform clinical trials with respect to our existing products and any new products; and
- attract, retain and motivate qualified personnel in various areas of our business.

Due to our limited operating history, we may not have the institutional knowledge or experience to be able to effectively address these and other risks that we may face. In addition, we may not be able to develop insights into trends that could emerge and negatively affect our business and may fail to respond effectively to those trends. As a result of these or other risks, we may not be able to execute key components of our business strategy, and our business, financial condition and operating results may suffer.

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If we fail to compete effectively against our competitors, both of which have significantly greater resources than we have, our net sales and operating results may be negatively affected.

Our industry is intensely competitive and subject to rapid change from the introduction of new products, technologies and other activities of industry participants. Our competitors, Mentor, a wholly owned subsidiary of Johnson & Johnson, and Allergan are well-capitalized global pharmaceutical companies that have been the market leaders for many years and have the majority share of the breast implant market in the United States. These competitors also enjoy several competitive advantages over us, including:

- greater financial and human resources for sales, marketing and product development;
- established relationships with health care providers and third-party payors;
- established reputations and name recognition among health care providers and other key opinion leaders in the plastic surgery industry;
- in some cases, an established base of long-time customers;
- products supported by long-term clinical data;
- larger and more established distribution networks;
- greater ability to cross-sell products; and
- more experience in conducting research and development, manufacturing, performing clinical trials and obtaining regulatory approval or clearance.

If we fail to compete effectively against our competitors, our net sales and operating results may be negatively affected.

Pricing pressure from customers and our competitors may impact our ability to sell our products at prices necessary to support our current business strategies.

Our 2012 entry into the U.S. breast implant market represented a significant expansion of the breast implant choices and technologies available in the United States. As a result of our entry into the U.S. breast implant market, our competitors intensified competitive pricing pressure for traditional round-shaped breast implants. If we are not successful in convincing customers or third-party payors of the differentiation of the gel technology used in our implants and selection of shapes and products as compared to our competitors' products, third-party payors may not cover or adequately reimburse our products and customers may choose our competitors' products.

The long-term safety of our products has not fully been established and our breast implants are currently under study in our PMA post-approval studies, which could reveal unanticipated complications.*

We have been marketing our silicone gel breast implants in the United States with pre-market approval from the FDA since 2012. However, there could still be unanticipated complications or unforeseen health consequences of being implanted with our silicone gel breast implants over the long-term (defined as 10 years or more). Additionally, we rely on our clinical data to make favorable comparisons of our product to our competitive products, and our longer-term data may change over time. Further, future studies or clinical experience may indicate that treatment with our products is not differentiated to treatment with competitive products. Such results could slow the adoption of our products and significantly reduce our sales, which could prevent us from achieving our forecasted sales targets or achieving or sustaining profitability. Moreover, if long-term results and experience indicate that our products cause unexpected or serious complications, we could be subject to mandatory product recalls, suspension or withdrawal of clearance or approval by the FDA or other applicable regulatory bodies and significant legal liability.

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Among the long-term health risks of breast implants which are being studied is the possible association between breast implants and a rare form of cancer called anaplastic large-cell lymphoma.*

In January 2011, the FDA indicated that there was a possible association between saline and silicone gel-filled breast implants and anaplastic large-cell lymphoma, or ALCL. Since our FDA approval in 2012, Sientra's breast-implant product label, which is approved by the FDA, has been required to contain a description of ALCL as a possible, though rare, outcome. Since its report in January 2011, the FDA continued to gather information about ALCL in women with breast implants through the review of medical device reports, review of medical literature, and collaboration with international regulators, scientific experts, the American Society of Plastic Surgeons, or ASPS, and other organizations. In January 2016, the FDA reiterated, after a review of information since 2011, that ALCL is a very rare condition and the FDA recommended the same measures as it had before for health care providers and patients. Further studies or clinical experience may indicate that breast implants, including our products, expose individuals to a more substantial risk of developing ALCL or other unexpected complications. As a result, we may be exposed to increased regulatory scrutiny, negative publicity and lawsuits from any individual who may develop ALCL after using our products, any of which could have a significant negative impact on our results of operations or financial condition. Moreover, if long-term results and clinical experience indicate that our products cause unexpected or serious complications, we could be subject to mandatory product recalls, suspension or withdrawal of regulatory clearances and approvals and significant legal liability.

If we are unable to train Plastic Surgeons on the safe and appropriate use of our products, we may be unable to achieve our expected growth.

An important part of our sales process includes the ability to educate Plastic Surgeons about the availability of anatomically-shaped breast implants and train Plastic Surgeons on the safe and appropriate use of our products. If we become unable to attract potential new Plastic Surgeon customers to our education and training programs, we may be unable to achieve our expected growth.

There is a learning process involved for Plastic Surgeons to become proficient in the use of our anatomically-shaped products. It is critical to the success of our commercialization efforts to train a sufficient number of Plastic Surgeons and provide them with adequate instruction in the appropriate use of our products via preceptorships and additional demonstration surgeries. This training process may take longer than expected and may therefore affect our ability to increase sales. Following completion of training, we rely on the trained Plastic Surgeons to advocate the benefits of our products in the marketplace. Convincing Plastic Surgeons to dedicate the time and energy necessary for adequate training is challenging, and we cannot assure you that we will be successful in these efforts. If Plastic Surgeons are not properly trained, they may misuse or ineffectively use our products. This may also result in, among other things, unsatisfactory patient outcomes, patient injury, negative publicity or lawsuits against us, any of which could have an adverse effect on our business and reputation.

If we are unable to continue to enhance our existing Breast Products and develop and market new products that respond to customer needs and preferences and achieve market acceptance, we may experience a decrease in demand for our products and our business could suffer.

We may not be able to compete effectively with our competitors, and ultimately satisfy the needs and preferences of our customers, unless we can continue to enhance existing products and develop and market new innovative products. Product development requires the investment of significant financial, technological and other resources. Product improvements and new product introductions also require significant planning, design, development and testing at the technological, product and manufacturing process levels and we may not be able to

timely develop product improvements or new products. Our competitors' new products may beat our products to market, be more effective with new features, obtain better market acceptance or render our products obsolete. Any new or modified products that we develop may not receive clearance or approval from the FDA, or achieve market acceptance or otherwise generate any meaningful sales or profits for us relative to our expectations based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs and research and development.

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If changes in the economy and consumer spending reduce consumer demand for our products, our sales and profitability would suffer.

We are subject to the risks arising from adverse changes in general economic and market conditions. Certain elective procedures, such as breast augmentation and body contouring, are typically not covered by insurance. Adverse changes in the economy may cause consumers to reassess their spending choices and reduce the demand for these surgeries and could have an adverse effect on consumer spending. This shift could have an adverse effect on our net sales. Furthermore, consumer preferences and trends may shift due to a variety of factors, including changes in demographic and social trends, public health initiatives and product innovations, which may reduce consumer demand for our products.

We are required to maintain high levels of inventory, which could consume a significant amount of our resources and reduce our cash flows.

We need to maintain substantial levels of inventory to protect ourselves from supply interruptions, provide our customers with a wide range of shapes and sizes of our breast implants, and account for the high return rates we experience as Plastic Surgeons typically order our products in multiple sizes for a single surgery and then return what they do not use. As a result of our substantial inventory levels, we are subject to the risk that a substantial portion of our inventory becomes obsolete. The materialization of any of these risks may have a material adverse effect on our earnings and cash flows due to the resulting costs associated with the inventory impairment charges and costs required to replace such inventory. Additionally, the suspension of Silimed's manufacturing by ANVISA, the fire at Silimed's facility that manufactures our breast implants and the potential feasibility, production capacity and timing related to Silimed's ability to manufacture breast implants in other facilities, or our ability to find an alternate supplier in a timely manner, may affect our ability to maintain the level of inventory supply we require to protect ourselves from supply interruptions which could have an unfavorable impact on our net sales.

Any disruption at our facilities could adversely affect our business and operating results.

Our principal offices are located in Santa Barbara, California. Substantially all of our operations are conducted at this location, including customer service, development and management and administrative functions. Substantially all of our inventory of finished goods is held at a second location in Santa Barbara, California. Despite our efforts to safeguard our facilities, including acquiring insurance, adopting health and safety protocols and utilizing off-site storage of computer data, vandalism, terrorism or a natural or other disaster, such as an earthquake, fire or flood, could damage or destroy our inventory of finished goods, cause substantial delays in our operations, result in the loss of key information and cause us to incur additional expenses. Our insurance may not cover our losses in any particular case. In addition, regardless of the level of insurance coverage, damage to our facilities may have a material adverse effect on our business, financial condition and operating results.

If there are significant disruptions in our information technology systems, our business, financial condition and operating results could be adversely affected.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage sales and marketing data, accounting and financial functions, inventory, product development tasks, clinical data, and customer service and technical support functions. Our information technology systems are vulnerable to damage or interruption from earthquakes, fires, floods and other natural disasters, terrorist attacks, computer viruses or hackers, power losses, and computer system or data network failures. In addition, a variety of our software systems are cloud-based data management applications hosted by third-party service providers whose security and information technology sy