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, 2023

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 (State or Other Jurisdiction of Incorporation or Organization)	**20-5551000** (I.R.S. Employer Identification No.)
3333 Michelson Drive, Suite 650 **Irvine, California** (Address of Principal Executive Offices)	**92612** (Zip Code)

(805) 562-3500
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	SIEN	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of November 9, 2023, the number of outstanding shares of the registrant's common stock, par value $0.01 per share, was 11,957,712.

SIENTRA, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2023

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"Sientra", "Sientra Platinum20", "Sientra Full Circle", "Sientra Smooth", "Sientra Teardrop", "AlloX", "AlloX2", "AlloX2 Pro", "Anatomical Controlled", "BIOCORNEUM", "Curve", "Dermaspan", "Luxe", "Softspan", "Silishield", "AuraClens", and "Viality" are trademarks of our company. Our logo and our other trade names, trademarks and service marks appearing in this document are our property. Other trade names, trademarks and service marks appearing in this document are the property of their respective owners. Solely for convenience, our trademarks and trade names referred to in this document appear without the TM or the (R) symbol, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the rights of the applicable licensor to these trademarks and trade names.

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIENTRA, INC.
Condensed Consolidated Balance Sheets
(In thousands, except per share and share amounts)
(Unaudited)

		September 30, 2023		December 31, 2022
Assets				
Current assets:				
Cash and cash equivalents	$	15,026	$	26,071
Accounts receivable, net of allowance for doubtful accounts of $2,776 and $3,132 at September 30, 2023 and December 31, 2022, respectively		29,610		36,892
Inventories		39,268		42,692
Prepaid expenses and other current assets		2,604		2,094
Total current assets		86,508		107,749
Property and equipment, net		13,289		14,941
Goodwill		9,202		9,202
Other intangible assets, net		24,332		25,676
Right of use assets, net		5,753		7,004
Other assets		849		849
Total assets	$	139,933	$	165,421
Liabilities and Stockholders' Deficit				
Current liabilities:				
Current portion of long-term debt		58,810	$	-
Accounts payable		5,284		6,818
Accrued and other current liabilities		20,655		22,599
Customer deposits		53,598		45,161
Sales return liability		13,745		15,773
Total current liabilities		152,092		90,351
Long-term debt		—		55,406
Derivative liability		3,153		880
Deferred and contingent consideration		1,794		2,791
Warranty reserve		8,758		8,186
Lease liabilities		4,129		5,518
Other liabilities		2,052		2,698
Total liabilities		171,978		165,830
Commitments and contingencies (Note 11)				
Stockholders' deficit:				
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 11,375,478 and 10,709,716 and outstanding 11,368,205 and 10,702,444 shares at September 30, 2023 and December 31, 2022, respectively		114		107
Additional paid-in capital		699,894		694,395
Treasury stock, at cost (7,273 shares at September 30, 2023 and December 31, 2022)		(260)		(260)
Accumulated deficit		(731,793)		(694,651)
Total stockholders' deficit		(32,045)		(409)
Total liabilities and stockholders' deficit	$	139,933	$	165,421

See accompanying notes to unaudited condensed consolidated financial statements.

SIENTRA, INC.
Condensed Consolidated Statements of Operations
(In thousands, except per share and share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales	$ 19,544	$ 22,570	$ 65,231	$ 65,481
Cost of goods sold	9,515	9,794	30,440	27,118
Gross profit	10,029	12,776	34,791	38,363
Operating expenses:				
Sales and marketing	9,330	12,290	29,487	41,542
Research and development	2,476	3,720	7,571	9,823
General and administrative	7,620	9,324	24,805	31,589
Total operating expenses	19,426	25,334	61,863	82,954
Loss from operations	(9,397)	(12,558)	(27,072)	(44,591)
Other (expense) income, net:				
Interest income	168	41	458	58
Interest expense	(2,367)	(2,364)	(7,250)	(6,584)
Change in fair value of derivative liability	(3,153)	—	(3,153)	—
Other (expense) income, net	(24)	(6)	(125)	(1)
Total other (expense) income, net	(5,376)	(2,329)	(10,070)	(6,527)
Loss from continuing operations before income taxes	(14,773)	(14,887)	(37,142)	(51,118)
Income tax expense	—	—	—	—
Loss from continuing operations	(14,773)	(14,887)	(37,142)	(51,118)
Loss from discontinued operations, net of income taxes	—	(94)	—	(208)
Net loss	$ (14,773)	$ (14,981)	$ (37,142)	$ (51,326)
Basic and diluted net loss per common share				
Continuing operations	$ (1.31)	$ (2.37)	$ (3.23)	$ (8.16)
Discontinued operations	—	(0.01)	—	(0.03)
Basic and diluted net loss per share	$ (1.31)	$ (2.38)	$ (3.23)	$ (8.19)
Weighted average outstanding common shares used for net loss per common share:				
Basic and diluted	11,290,699	6,284,817	11,488,310	6,261,350

See accompanying notes to unaudited condensed consolidated financial statements.

SIENTRA, INC.
Condensed Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands, except share amounts)
(Unaudited)

	Preferred stock		Common stock		Treasury stock		Additional paid-in	Accumulated	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount	capital	deficit	(deficit)
Balances at December 31, 2021	—	$ —	6,224,209	$ 62	7,273	$ (260)	$ 662,399	$ (621,344)	$ 40,857
Employee stock-based compensation expense	—	—	—	—	—	—	2,196		2,196
Employee stock purchase program (ESPP)	—	—	13,958	—	—	—	329	—	329
Vested RSUs	—	—	26,533	—	—	—	—	—	—
Shares withheld for tax obligations on vested RSUs	—	—	(9,407)	—	—	—	(255)	—	(255)
Net loss	—	—	—	—	—	—	—	(18,041)	(18,041)
Balances at March 31, 2022	—	$ —	6,255,293	$ 62	7,273	$ (260)	$ 664,669	$ (639,385)	$ 25,086
Employee stock-based compensation expense	—	—	—	—	—	—	2,062	—	2,062
Vested RSUs	—	—	33,077	—	—	—	—	—	—
Shares repurchased for tax withholding on vesting RSUs	—	—	(8,749)	—	—	—	(175)	—	(175)
Net loss	—	—	—	—	—	—	—	(18,304)	(18,304)
Balances at June 30, 2022	—	$ —	6,279,621	$ 62	7,273	$ (260)	$ 666,556	$ (657,689)	$ 8,669
Employee stock-based compensation expense	—	—	—	—	—	—	1,855	—	1,855
Employee stock purchase program (ESPP)	—	—	20,313	—	—	—	144	—	144
Vested RSUs	—	—	7,602	—	—	—	—	—	—
Shares repurchased for tax withholding on vesting RSUs	—	—	(2,055)	—	—	—	(18)	—	(18)
Net loss	—	—	—	—	—	—	—	(14,981)	(14,981)
Balances at September 30, 2022	—	$ —	6,305,480	$ 62	7,273	$ (260)	$ 668,537	$ (672,670)	$ (4,331)

	Preferred stock		Common stock		Treasury stock		Additional paid-in	Accumulated	Total stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	capital	deficit	deficit
Balances at December 31, 2022	—	$ —	10,709,716	$ 107	7,273	$ (260)	$ 694,395	$ (694,651)	$ (409)
Derivative liability reclassified to equity	—	—	—	—	—	—	880	—	880
Exercise of warrants	—	—	290,315	3	—	—	(3)	—	—
Employee stock-based compensation expense	—	—	—	—	—	—	1,722	—	1,722
Employee stock purchase program (ESPP)	—	—	146,227	1	—	—	255	—	256
Vested RSUs	—	—	70,017	1	—	—	(1)	—	—
Shares repurchased for tax withholding on vesting RSUs	—	—	(25,034)	—	—	—	(40)	—	(40)
Net loss	—	—	—	—	—	—	—	(12,892)	(12,892)
Balances at March 31, 2023	—	$ —	11,191,241	$ 112	7,273	$ (260)	$ 697,208	$ (707,543)	$ (10,483)
Employee stock-based compensation expense	—	—	—	—	—	—	1,338	—	1,338
Employee stock purchase program (ESPP)	—	—	(1,780)	—	—	—	(3)	—	(3)
Vested RSUs	—	—	78,661	1	—	—	(1)	—	—
Shares repurchased for tax withholding on vesting RSUs	—	—	(6,216)	—	—	—	(7)	—	(7)
Net loss	—	—	—	—	—	—	—	(9,477)	(9,477)
Balances at June 30, 2023	—	$ —	11,261,906	$ 113	7,273	$ (260)	$ 698,535	$ (717,020)	$ (18,632)
Employee stock-based compensation expense	—	—	—	—	—	—	1,233	—	1,233
Employee stock purchase program (ESPP)	—	—	100,279	1	—	—	175	—	176
Vested RSUs	—	—	19,468	—	—	—	—	—	—
Shares repurchased for tax withholding on vesting RSUs	—	—	(6,175)	—	—	—	(49)	—	(49)
Net loss	—	—	—	—	—	—	—	(14,773)	(14,773)
Balances at September 30, 2023	—	$ —	11,375,478	$ 114	7,273	$ (260)	$ 699,894	$ (731,793)	$ (32,045)

See accompanying notes to unaudited condensed consolidated financial statements.

SIENTRA, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities:		
Net loss	$ (37,142)	$ (51,326)
Loss from discontinued operations, net of income taxes	—	(208)
Loss from continuing operations, net of income taxes	(37,142)	(51,118)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	5,546	4,947
Provision for doubtful accounts	448	1,086
Provision for warranties	1,510	583
Provision for inventories	68	607
Fair value adjustments to derivative liability	3,153	—
Fair value adjustments of other liabilities held at fair value	350	(88)
Amortization of debt discount and issuance costs	3,621	3,029
Employee stock-based compensation expense	4,293	6,113
Other non-cash adjustments	—	135
Changes in operating assets and liabilities:		
Accounts receivable	6,610	(2,341)
Inventories	3,357	667
Prepaid expenses, other current assets and other assets	741	1,997
Accounts payable, accrued and other liabilities	(9,122)	(5,514)
Customer deposits	8,437	7,830
Sales return liability	(2,029)	(1,383)
Net cash flow used in operating activities - continuing operations	(10,159)	(33,450)
Net cash flow used in operating activities - discontinued operations	—	(208)
Net cash used in operating activities	(10,159)	(33,658)
Cash flows from investing activities:		
Purchases of property and equipment	(1,056)	(1,856)
Net cash flow used in investing activities - continuing operations	(1,056)	(1,856)
Net cash used in investing activities	(1,056)	(1,856)
Cash flows from financing activities:		
Proceeds from issuance of common stock for employee stock-based plans	428	475
Shares repurchased for tax withholding on vesting RSUs	(96)	(448)
Gross borrowings under the Term Loan	—	5,000
Gross borrowings under the Revolving Loan	—	5,440
Repayments of the Revolving Loan	—	(7,678)
Deferred financing costs	(162)	(73)
Net cash provided by financing activities - continuing operations	170	2,716
Net cash provided by financing activities	170	2,716
Net decrease in cash, cash equivalents and restricted cash	(11,045)	(32,798)
Cash, cash equivalents and restricted cash at:		
Beginning of period	26,677	52,068
End of period	$ 15,632	$ 19,270
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets		
Cash and cash equivalents	15,026	18,975
Restricted cash included in other assets	606	295
Total cash, cash equivalents and restricted cash	$ 15,632	$ 19,270
Supplemental disclosure of cash flow information:		
Interest paid	$ 3,218	$ 3,385
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment in accounts payable and accrued liabilities	76	1,242
Asset acquisition, deferred and contingent consideration obligations at fair value	1,767	—
Deferred financing costs in accounts payable and accrued liabilities	—	250
Derivative liability reclassified to equity	880	—

See accompanying notes to unaudited condensed consolidated financial statements.

1. Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Sientra, Inc. ("Sientra", the "Company", "we", "our", or "us") in this Quarterly Report on Form 10-Q have been prepared in accordance with U.S. generally accepted accounting principles, or "GAAP", and the rules and regulations of the U.S. Securities and Exchange Commission, or the "SEC". Accordingly, they do not include certain notes and financial presentations normally required under GAAP for complete financial reporting. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the opinion of management, considered necessary to provide a fair presentation for the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on April 18, 2023, or the Annual Report. The results for the three and nine months ended September 30, 2023 are not necessarily indicative of results to be expected for the year ending December 31, 2023, any other interim periods, or any future year or period.

Reverse Stock Split

On January 19, 2023, the Company effected a 1-for-10 reverse stock split (the "Reverse Stock Split") of the Company's issued and outstanding common stock, par value $0.01 per share (the "Common Stock") by the filing of a Certificate of Amendment (the "Certificate") with the Secretary of State of the State of Delaware pursuant to the Delaware General Corporation Law. The Reverse Stock Split became effective on January 19, 2023.

As a result of the Reverse Stock Split, every 10 shares of Common Stock issued and outstanding were automatically reclassified into one new share of common stock. The Reverse Stock Split did not modify any rights or preferences of the shares of Common Stock. Proportionate adjustments were made to the exercise or conversion prices and the number of shares underlying the Company's outstanding equity awards, convertible securities and warrants, as well as to the number of shares issued and issuable under the Company's equity incentive plans. The Common Stock issued pursuant to the Reverse Stock Split remained fully paid and non-assessable. The Reverse Stock Split did not affect the number of authorized shares of Common Stock or the par value of the Common Stock. All share information in the accompanying financial statements has been adjusted to reflect the results of the Reverse Stock Split.

Discontinued Operations of miraDry

As a result of the miraDry sale discussed in Note 2, the miraDry business met the criteria to be reported as discontinued operations. Therefore, the Company is reporting the historical results of miraDry, including the results of operations, cash flows, and related assets and liabilities, as discontinued operations for all periods presented herein through the date of the Sale. Unless otherwise noted, the accompanying notes to the unaudited condensed consolidated financial statements have all been revised to reflect continuing operations only. Following the sale the Company has one operating segment in continuing operations named Plastic Surgery, formerly known as Breast Products.

b. Liquidity and Going Concern

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared assuming the Company will continue as a going concern and in accordance with GAAP. The going concern basis of presentation assumes that the Company will continue in operation one year after the date these financial statements are issued and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Pursuant to the requirements of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") Topic 205-40, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date these condensed consolidated financial statements are issued. This evaluation does not take into consideration the potential mitigating effect of management's plans that have not been fully implemented or are not within control of the Company as of the date the condensed consolidated financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company's ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued.

Recurring Operating Losses

Since the Company's inception, it has incurred recurring losses and cash outflows from operations and the Company anticipates that losses will continue in the near term. During the nine months ended September 30, 2023, the Company incurred net losses of $37.1 million and used $10.2 million of cash in operating activities. As of September 30, 2023, the Company had cash and cash equivalents of $15.0 million. As a result of these conditions, substantial doubt exists about our ability to continue as a going concern for a period of at least one year from the date of issuance of these unaudited condensed consolidated financial statements. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

To alleviate these conditions, management is currently evaluating various cost-saving measures to reduce operating expenses and cash outflows. However, the Company will need to generate a significant increase in net sales to further improve profitability and cash inflows, which is dependent upon continued growth in our Plastic Surgery segment and the launch of new products and partnerships. Additionally, we are evaluating various funding alternatives to improve liquidity and may seek to raise additional equity or debt capital, refinance our debt obligations or obtain waivers, and/or scale back or freeze our organic growth plans to manage our liquidity and capital resources. As the Company seeks additional sources of financing, there can be no assurance that such financing would be available to the Company on favorable terms or at all. The Company's ability to obtain additional financing in the equity capital markets is subject to several factors, including market and economic conditions, the Company's performance and investor sentiment with respect to the Company and its industry.

During 2022, to fund ongoing operating and capital needs, the Company raised additional capital through the sale of equity securities and incremental debt financing. See Note 7 to the condensed consolidated financial statements for further details.

Financial Covenants

The Company was not in compliance with its financial covenants related to minimum revenue under the Amended and Restated Facility Agreement ("Restated Agreement") with Deerfield at September 30, 2023. Under the terms of the Restated Agreement, the breach of the minimum revenue financial covenant is deemed an event of default. Under the Restated Agreement, in the event of default, Deerfield may elect that Default Interest of 2.0% shall be payable in cash on demand in addition to the applicable interest rate then in effect. Without a waiver or other relief under the Restated Agreement, one of the remedies that Deerfield has available to it, amongst others, is the ability to accelerate repayment of the debt, which the Company would not be able to immediately repay. The potential acceleration of the debt by Deerfield resulted in the reclassification of debt from a long-term liability to a current liability as of September 30, 2023.

On October 30, 2023, the Company entered into a Temporary Waiver and Exchange Agreement (the "Temporary Waiver and Exchange Agreement") with Deerfield, which provides for a temporary waiver of the event of default through January 15, 2024. For further details, see Note 12 Subsequent Events.

c. *Recent Accounting Pronouncements*

Recently Adopted Accounting Standards

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity.* The amendment eliminates certain accounting models and simplifies the accounting for convertible instruments and enhances disclosures for convertible instruments and earnings per share. The amendments are effective for public entities excluding smaller reporting companies for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023 including interim periods within those fiscal years and early adoption is permitted. The Company adopted this guidance effective January 1, 2023 under the modified retrospective adoption approach and there was no material impact on its consolidated financial statements from the adoption.

Recently Issued Accounting Standards

In December 2022, the FASB issued ASU 2022-06, *Deferral of the Sunset Date of Topic 848* that extends the period of time preparers can utilize the reference rate reform relief guidance. In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The Company is currently evaluating the impact the election of the optional expedient will have on the consolidated financial statements.

d. *Risks and Uncertainties*

The COVID-19 pandemic continues to have a lingering effect on our business and results of operations, although to a lesser extent than in prior years. At the height of the pandemic and as an aesthetics company, the surgical procedures involving our breast products were susceptible to local and national government restrictions. The inability or limited ability to perform non-emergency procedures significantly harmed our revenues starting in the second quarter of 2020 and lasting through the first quarter of 2022. While restrictions on non-emergency procedures have been removed, there is still substantial uncertainty as to when, if at all, the aesthetic procedures that the Company's products are sold into will return to pre-pandemic levels.

In addition, the global economy, including the financial and credit markets, has recently experienced extreme volatility and disruptions, including increases to inflation rates, rising interest rates, declines in consumer confidence, declines in economic growth, and uncertainty about economic stability. The severity and duration of the impact of these conditions on our business cannot be predicted.

The estimates used for, but not limited to, determining the collectability of accounts receivable, fair value of long-lived assets and goodwill, and sales returns liability required could be impacted by the factors described above. While the full impact and duration of the factors noted above is unknown at this time, the Company has made appropriate estimates based on the facts and circumstances available as of the reporting date. These estimates may change as new events occur and additional information is obtained.

2. Discontinued Operations

On June 10, 2021, the Company completed the sale of its miraDry business (the "Sale") to miraDry Acquisition Company, Inc., a Delaware corporation ("Buyer"), an entity affiliated with 1315 Capital II, LP, as a result of the Company's strategic decision to focus investment on its core Plastic Surgery segment. The Sale was made pursuant to the terms and conditions of the Asset Purchase Agreement (the "Purchase Agreement"), dated May 11, 2021, among the Company and certain of its subsidiaries, Buyer, and, solely for purposes of Section 8.14 of the Purchase Agreement, 1315 Capital II, LP. The aggregate purchase price was $10.0 million, which after certain adjustments for agreed upon changes in the estimated net asset value amount of purchased assets and assumed liabilities resulted in net cash proceeds of $11.3 million to the Company on the date of close. In October 2021, the Company finalized the transaction and paid $3.2 million to the Buyer in accordance with the agreed upon post close changes in the net asset value and recognized a loss on sale of $2.5 million.

In accordance with the Purchase Agreement, assumed liabilities did not include product liabilities, environmental, and employee claims arising prior to the closing date. The Purchase Agreement also included customary representations and warranties, as well as certain covenants, including, among other things, that: (i) the Company will abide by certain non-solicitation, exclusivity, and non-competition covenants, and (ii) the Company would enter into a transition services agreement (“TSA”) to provide certain transition services related to the business.

Under the TSA, the Company provided certain post-closing services to the Buyer related to the miraDry business for a period of six months, including accounting, accounts receivable support, customer service, IT, regulatory, quality assurance, and clinical support. As consideration for these services, the Buyer reimbursed the Company for direct and certain indirect costs, as well as certain overhead or administrative expenses related to operating the business. The Company recognized $0.2 million of TSA fees and cost reimbursements in operating expenses from continuing operations in the condensed consolidated statement of operations for the nine months ended September 30, 2022. Since the closing date, the Company has received $0.3 million relating to the TSA services and has recorded a receivable of $0.1 million within other current assets in the condensed consolidated balance sheets. In connection with the accounts receivable support under the TSA, since the closing date the Company received $2.3 million in customer payments and has remitted $2.3 million to the Buyer. As of September 30, 2023, the Company does not have a payable to the Buyer on the condensed consolidated balance sheets.

Additionally, the Company and the Buyer entered into a sublease agreement whereby the Buyer subleased the miraDry office space in Santa Clara, CA. The sublease term was for an initial period of six months, with subsequent option periods for up to a total of twenty-four months. Following the initial period, the Buyer exercised an additional period of six months, and an extension of twelve months thereafter. The sublease expired in March 2023. During the three and nine months ended September 30, 2023, the Company recognized $0.0 million and $0.4 million, respectively of sublease income in general and administrative expenses in the condensed consolidated statements of operations.

The Sale met the discontinued operations criteria given that the business is a component and represented a strategic shift. The following table presents the aggregate carrying amounts of major classes of assets and liabilities of discontinued operations (in thousands):

	September 30, 2023
Assets of discontinued operations:	
Prepaid expenses and other current assets	$ 4
Total assets of discontinued operations	$ 4
Liabilities of discontinued operations:	
Accounts payable	$ 6
Accrued and other current liabilities	209
Total liabilities of discontinued operations	$ 215

The results of operations for the miraDry business were included in loss from discontinued operations on the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2022. The following table provides information regarding the results of discontinued operations (in thousands):

	Three Months Ended September 30,	Nine Months Ended September 30,
	2022	2022
Net sales	$ —	$ —
Cost of goods sold	—	—
Gross profit	—	—
Operating expenses	94	208
Loss from operations of discontinued operations	(94)	(208)
Other income (expense), net	—	—
Loss from discontinued operations before income taxes	(94)	(208)
Loss on sale of discontinued operations before income taxes	—	—
Total loss from discontinued operations before income taxes	(94)	(208)
Income tax expense (benefit)	—	—
Loss from discontinued operations, net of income taxes	$ (94)	$ (208)

The results of the miraDry business, including the results of operations, cashflows, and related assets and liabilities are reported in continuing operations for the three and nine months ended September 30, 2023.

3. Revenue

The Company generates revenue primarily through the sale and delivery of promised goods or services to customers. Sales prices are documented in the executed sales contract, purchase order or order acknowledgement prior to the transfer of control to the customer. Typical payment terms are 30 days.

Revenue contracts may include multiple products or services, each of which is considered a separate performance obligation. Performance obligations typically include the delivery of promised products, such as breast implants, tissue expanders, BIOCORNEUM, Viality, and SimpliDerm, along with service-type warranties. Other deliverables are sometimes promised but are ancillary and insignificant in the context of the contract as a whole. Revenue is allocated to each performance obligation based on its relative standalone selling price. The Company determines standalone selling prices based on observable prices for all performance obligations except for the service-type warranty under the Platinum20 Limited Warranty Program, or "Platinum20".

The Company introduced Platinum20 in May 2018 on all breast implants implanted in the United States or Puerto Rico on or after May 1, 2018. Additionally, Platinum20 Program applies to all breast implants that are implanted in Canada on or after March 23, 2022. Platinum20 provides for financial assistance for revision surgeries and no-charge contralateral replacement implants upon the occurrence of certain qualifying events. The Company considers Platinum20 to have an assurance warranty component and a service warranty component. The assurance component is recorded as a warranty liability at the time of sale. The Company considers the service warranty component as an additional performance obligation and defers revenue at the time of sale using the expected cost plus a margin approach for the performance obligation. Inputs into the expected cost plus a margin approach include historical incidence rates, estimated replacement costs, estimated financial assistance payouts and an estimated margin.

The liability for unsatisfied performance obligations under the service warranty as of September 30, 2023 was as follows (in thousands):

	Nine Months Ended September 30, 2023	
Balance as of December 31, 2022	$	3,508
Additions and adjustments, net		107
Revenue recognized		(1,119)
Balance as of September 30, 2023	$	2,496
Less short-term portion		(498)
Long-term portion	$	1,998

The liability for the short-term portion is included in “Accrued and other current liabilities” and the long-term portion is included in “Other liabilities” in the condensed consolidated balance sheets.

Revenue from service warranties are recognized ratably over the term of the agreement. Specifically for Platinum20, the performance obligations are satisfied at the time that the benefits are provided and are expected to be satisfied ratably over the 3 to 24 month period following sale of the product for financial assistance and 20 years for product replacement.

For delivery of promised products, control transfers and revenue is recognized upon shipment, unless the contractual arrangement requires transfer of control when products reach their destination, for which revenue is recognized once the product arrives at its destination. A portion of the Company’s revenue is generated from the sale of consigned inventory maintained at doctor, hospital, and clinic locations. For these products, revenue is recognized at the time the Company is notified by the customer that the product has been used, not when the consigned products are delivered to the customer’s location.

Sales Return Liability

With the exception of the Company’s BIOCORNEUM scar management products, Viality, inventory held on consignment, and products sold to international customers, the Company allows for the return of products from customers within six months after the original sale, which is accounted for as variable consideration. A sales return liability is established based on estimated returns using relevant historical experience taking into consideration recent gross sales and notifications of pending returns, as adjusted for changes in recent industry events and trends. Estimated future sales returns for the current and prior periods are recorded as a reduction of revenue and as a sales return liability in the current period. Actual sales returns for current and prior periods, in any future period are inherently uncertain and thus may differ from the estimates. If actual sales returns differ significantly from the estimates, an adjustment to revenue in the current or subsequent period would be recorded and noted separately as a change in estimate. The following table provides a rollforward of the sales return liability (in thousands):

	Nine Months Ended September 30,			
	2023		2022	
Beginning balance	$	15,773	$	13,399
Addition to reserve for sales activity		139,129		130,968
Actual returns		(141,157)		(132,351)
Ending balance	$	13,745	$	12,016

4. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, customer deposits and sales return liability are reasonable estimates of their fair value because of the short maturity of these items. The fair value of the contingent consideration related to past acquisitions, and the fair value attributable to the Convertible Note and 2022 Note (the "Convertible Notes") convertible features and contingent interest features are discussed in Note 5. As discussed in Note 5, the fair value of the Convertible Notes' conversion features was reclassified to equity in the current year and the contingent interest features that were not previously recorded by the Company has been measured at fair value for the period ended September 30, 2023. The Convertible Notes are carried at amortized cost on the condensed consolidated balance sheet.

The fair value of the debt is based on the amount of future cash flows associated with the instrument discounted using the Company's market rate. As of September 30, 2023 and December 31, 2022, the carrying value and fair value of the Convertible Notes were as follows (in thousands):

	September 30, 2023	December 31, 2022
Carrying value		
Convertible Note	$ 42,219	$ 40,423
2022 Note	$ 16,591	$ 15,396
Fair value		
Convertible Note	$ 35,802	$ 33,794
2022 Note	$ 18,152	$ 16,495

5. Balance Sheet Components

a. Inventories

Inventories consist of the following (in thousands):

	September 30, 2023	December 31, 2022
Raw materials	$ 3,488	$ 2,765
Work in progress	2,997	4,245
Finished goods	29,486	31,438
Finished goods - right of return	3,297	4,244
	$ 39,268	$ 42,692

b. Property and Equipment, net

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

	September 30, 2023	December 31, 2022
Leasehold improvements	$ 6,375	$ 6,264
Manufacturing equipment and tooling	11,817	11,259
Computer equipment	1,796	1,690
Software	6,756	6,393
Furniture and fixtures	1,200	1,205
	27,944	26,811
Less accumulated depreciation	(14,655)	(11,870)
	$ 13,289	$ 14,941

Depreciation expense for the three months ended September 30, 2023 and 2022 was $0.9 million and $0.6 million, respectively. Depreciation expense for the nine months ended September 30, 2023 and 2022 was $2.8 million and $2.2 million, respectively. There were no impairments recorded during the nine months ended September 30, 2023 and 2022.

c. Goodwill and Other Intangible Assets, net

Following the sale of the miraDry business, the Company has one reporting unit, Plastic Surgery, formerly known as Breast Products. The Company evaluates goodwill for impairment at least annually on October 1st and whenever circumstances suggest that goodwill may be impaired.

The carrying amount of goodwill is $9.2 million for the years ended September 30, 2023 and December 31, 2022.

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

	Average Amortization Period (in years)	September 30, 2023 Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Intangibles with definite lives				
Customer relationships	10	$ 4,940	$ (4,640)	$ 300
Trade names - finite life	12	800	(506)	294
Manufacturing know-how	19	8,240	(3,100)	5,140
Developed technology	8	22,579	(4,431)	18,148
Total definite-lived intangible assets		$ 36,559	$ (12,677)	$ 23,882
Intangibles with indefinite lives				
Total trade names - indefinite-lived		450	—	450
Total definite and indefinite-lived intangibles		$ 37,009	$ (12,677)	$ 24,332

	Average Amortization Period (in years)	December 31, 2022 Gross Carrying Amount	Accumulated Amortization	Intangible Assets, net
Intangibles with definite lives				
Customer relationships	10	$ 4,940	$ (4,493)	$ 447
Trade names - finite life	12	800	(456)	344
Manufacturing know-how	19	8,240	(2,479)	5,761
Developed technology	8	21,163	(2,489)	18,674
Total definite-lived intangible assets		$ 35,143	$ (9,917)	$ 25,226
Intangibles with indefinite lives				
Total trade names - indefinite-lived		450	—	450
Total definite and indefinite-lived intangibles		$ 35,593	$ (9,917)	$ 25,676

Amortization expense for the three months ended September 30, 2023 and 2022 was $1.0 and $0.9 million, respectively. Amortization expense for both the nine months ended September 30, 2023 and 2022 was $2.8 million. Amortization expense is recorded in general and administrative expense in the condensed consolidated statement of operations, with the exception of manufacturing know-how and developed technology, which is recorded in cost of goods sold. The following table summarizes the future estimated amortization expense relating to the Company's definite-lived intangible assets as of September 30, 2023 (in thousands):

Period	Amortization Expense
2023	$ 999
2024	3,851
2025	3,708
2026	3,535
2027	3,454
Thereafter	8,335
	$ 23,882

d. Accrued and Other Current Liabilities

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

	September 30, 2023	December 31, 2022
Accrued payroll and bonuses	$ 5,630	$ 4,962
Accrued severance	720	1,232
Accrued commissions	670	3,017
Deferred and contingent consideration, current portion	5,795	3,030
Lease liabilities	1,839	1,823
Other	6,001	8,535
	$ 20,655	$ 22,599

e. Warranty Reserve

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

	Nine Months Ended September 30,	
	2023	2022
Balance as of January 1	$ 8,828	$ 2,505
Warranty costs incurred during the period	(797)	(413)
Changes in accrual related to warranties issued during the period	1,152	633
Changes in accrual related to pre-existing warranties	357	(50)
Balance as of September 30	$ 9,540	$ 2,675
Less short-term portion	$ (782)	$ —
Long-term portion	$ 8,758	$ 2,675

As of September 30, 2023 and 2022, the liability for the long-term balance is included in “Warranty reserve,” and the short-term portion is included in “Accrued and other current liabilities."

f. Liabilities measured at fair value

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.

Contingent consideration

The contingent consideration balance consists of milestone payments related to the acquisition of Viality and future royalty payments related to the acquisition of BIOCORNEUM.

The Company assessed the fair value of all contingent consideration using a Monte-Carlo simulation model. The contingent consideration related to Viality is based on the achievement of certain clinical endpoints following the completion of a study measuring retention rates using the fat transfer products. The significant assumptions utilized in the fair value measurement was risk-free rate, the probable retention rate based on historical data and the Company's equity volatility of 95.0%. Any subsequent changes to the fair value of contingent consideration will be recorded as an adjustment to the carrying value of the assets acquired.

The contingent consideration related to the acquisition of BIOCORNEUM consists of royalty obligations based on future net sales for a defined term, beginning in 2024. The significant assumption utilized in the fair value measurement was the discount rate, which was 24.0%.

As these inputs are not observable, the overall fair value measurement of the contingent consideration is classified as Level 3.

Derivative liability

The Company identified embedded derivatives related to the Convertible Notes' conversion option features. Refer to Note 7 to the unaudited condensed consolidated financial statements for further details on the Convertible Notes. The conversion option features associated with the Convertible Notes were deemed embedded derivatives requiring bifurcation. In accordance with ASC 815-40, Derivatives and Hedging Activities, the conversion option features were accounted for as derivative liabilities at the date of issuance with changes in the fair value due to remeasurement recorded each reporting period.

On January 19, 2023, the Company effected a Reverse Stock Split, and upon the effectiveness of the Reverse Stock Split, the Company deemed it appropriate to reassess the conversion features of its Convertible Notes. As noted above, the conversion features were separately bifurcated and accounted for as embedded derivatives. Based on the Company’s reassessment, it has concluded that the conversion features meet the criteria for equity classification and has reclassified the fair value of the bifurcated conversion features to “Additional paid in capital” on the condensed consolidated balance sheet.

The Company was not in compliance with the minimum revenue financial covenant under the Restated Agreement with Deerfield at September 30, 2023.

Under the terms of the Restated Agreement with Deerfield, a breach of a financial covenant is deemed an event of default and, at the election of Deerfield, a default interest of 2.0% can be charged in addition to the applicable interest rate in effect (“contingent interest feature”). The contingent interest feature was identified as an embedded derivative requiring bifurcation at the date of issuance, however the fair value of the embedded derivative was deemed insignificant as an event of default was deemed unlikely and would continue to be insignificant until an event of default occurred. As of September 30, 2023, in connection with the breach of the minimum revenue financial covenant, the Company has recognized a derivative liability related to the contingent interest feature. The contingent interest feature embedded derivative is required to be remeasured at fair value each reporting period with changes in fair value recorded in the condensed consolidated statement of operations.

The Company utilized a binomial lattice model to calculate the fair value of the conversion option features embedded derivative. Significant observable and unobservable inputs include, conversion price, stock price, dividend rate, expected volatility, risk-free rate, and the probability of conversion to common shares at the Base Conversion Rate in the event of a major transaction (e.g., a change in control).

The fair value of the contingent interest feature is calculated as the present value of the expected payments, using significant observable and unobservable inputs, including credit market yields of 20.67% and 24.12%, risk-adjusted discount rates and a probability of default event of 100% for the Convertible Notes.

The binomial lattice and discounted cash flow models are a Level 3 valuation technique because they require the development of significant internal assumptions in addition to observable market indicators.

The following tables present information about the Company's liabilities that are measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022 and indicate the level of the fair value hierarchy utilized to determine such fair value (in thousands):

	Fair Value Measurements as of September 30, 2023 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for embedded derivative	$ —	$ —	$ 3,153	$ 3,153
Liability for contingent consideration	$ —	$ —	$ 4,321	$ 4,321
	$ —	$ —	$ 7,474	$ 7,474

	Fair Value Measurements as of December 31, 2022 Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Liability for embedded derivative	$ —	$ —	$ 880	$ 880
Liability for contingent consideration	$ —	$ —	$ 2,815	$ 2,815
	$ —	$ —	$ 3,695	$ 3,695

The following table provides a rollforward of the aggregate fair values of the Company's liabilities for which fair value is determined by Level 3 inputs (in thousands):

	Fair Value Measurements
Balance, December 31, 2022	$ 3,695
Embedded derivative reclassified to equity	(880)
Change in fair value – contingent consideration	1,506
Change in fair value – embedded derivative	3,153
Balance, September 30, 2023	$ 7,474

The liability for the current portion of contingent consideration is included in "Accrued and other current liabilities" and the long-term portion is included in "Deferred and contingent consideration" in the condensed consolidated balance sheets.

The liability for the embedded derivative is recorded as "Derivative liability" in the condensed consolidated balance sheets.

The Company recognizes changes in the fair value of the derivative liability as "Change in fair value of derivative liability" in the condensed consolidated statement of operations and changes in the contingent consideration are recognized in "General and administrative" expense in the condensed consolidated statement of operations.

6. Leases

Components of lease expense were as follows:

Lease Cost	Classification	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Operating lease cost	Operating expenses	$ 508	$ 578	1,439	1,429
Operating lease cost	Cost of goods sold	98	102	293	323
Sublease income	Operating expenses	(28)	(287)	(393)	(826)
Total operating lease cost		$ 578	$ 393	$ 1,339	$ 926
Finance lease cost					
Amortization of right-of-use assets	Operating expenses	$ —	$ —	$ 4	$ 3
Amortization of right-of-use assets	Cost of goods sold	4	13	17	36
Interest on lease liabilities	Other income (expense), net	—	1	1	3
Total finance lease cost		$ 4	$ 14	$ 22	$ 42
Total lease cost		$ 582	$ 407	$ 1,361	$ 968

Short-term lease expense for the three and nine months ended September 30, 2023 and 2022 was not material.

Supplemental cash flow information related to operating and finance leases for the nine months ended September 30, 2023 was as follows (in thousands):

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	$ 1,810	$ 1,277
Operating cash outflows from finance leases	$ 23	$ 40
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases, net of tenant improvement allowances of $1.1 million	$ —	$ 1,542

Supplemental balance sheet information related to operating and finance leases was as follows (in thousands, except lease term and discount rate):

	September 30, 2023	December 31, 2022
Reported as:		
Right-of-use assets, net		
Operating lease right-of-use assets	$ 5,480	$ 6,710
Finance lease right-of-use assets	$ 273	294
Total right-of-use assets	5,753	7,004
Accrued and other current liabilities		
Operating lease liabilities	$ 1,834	$ 1,796
Finance lease liabilities	5	27
Lease liabilities		
Operating lease liabilities	4,129	5,517
Finance lease liabilities	—	1
Total lease liabilities	$ 5,968	$ 7,341
Weighted average remaining lease term (years)		
Operating leases	4.00	5.00
Finance leases	-	1.00
Weighted average discount rate		
Operating leases	9.40 %	9.11 %
Finance leases	6.90 %	6.90 %

As of September 30, 2023, maturities of the Company's operating and finance lease liabilities and sublease income are as follows (in thousands):

Period	Operating leases	Finance leases	Total	Sublease income
2023	$ 656	$ 4	$ 660	$ (56)
2024	2,153	1	2,154	(231)
2025	1,244	—	1,244	(39)
2026	1,209	—	1,209	—
2027	1,061	—	1,061	—
2028 and thereafter	1,055	—	1,055	—
Total lease payments (receipts)	$ 7,378	$ 5	$ 7,383	$ (326)
Less imputed interest	1,415	—	1,415	
Total lease liabilities	$ 5,963	$ 5	$ 5,968	

7. Debt

	September 30, 2023	December 31, 2022
Convertible Note	$ 50,000	$ 50,000
2022 Note *	23,449	23,449
Total carrying amount	73,449	73,449
Unamortized debt discount and issuance costs	(14,639)	(18,043)
Total - carrying amount, net	$ 58,810	$ 55,406

*2022 Note includes exit fees of $0.45 million – included in principal and unamortized debt discount and issuance costs

Convertible and 2022 Note

On October 12, 2022, the Company, entered into the "Restated Agreement" that amends and restates the Existing Agreement with Deerfield. In connection with the Restated Agreement, the Company and Deerfield entered into an

Exchange Agreement pursuant to which Deerfield exchanged $10.0 million of principal under the Original Note for securities of the Company, reducing the outstanding principal amount of the original convertible note to $50.0 million. Additionally, on the date of the Restated Agreement and pursuant to the terms thereof, the Company issued and sold an additional senior secured convertible note in a principal amount of $23.0 million (the "2022 Note" and, together with the Original Note, the "Convertible Notes").

Pursuant to the Convertible Notes, Deerfield has the option to demand repayment of all outstanding principal, and any unpaid interest accrued thereon and any other amounts payable under the Restated Agreement (including the Exit Fee (in the case of the 2022 Note) and any make whole amounts), in connection with a Major Transaction (as defined in the Convertible Notes), which shall include, among others, any acquisition or other change of control of the Company; the sale or transfer of assets of the Company equal to more than 50% of the Enterprise Value (as defined in the Convertible Notes) of the Company; a liquidation, bankruptcy or other dissolution of the Company; or if at any time shares of the Company's common stock are not listed on an Eligible Market (as defined in the Convertible Notes). The Convertible Notes are subject to specified events of default, the occurrence of which would entitle Deerfield to immediately demand repayment of all outstanding principal and accrued interest on the Convertible Note. Such events of default include, among others, failure to make any payment under the Convertible Note when due, failure to observe or perform any covenant under the Restated Agreement or the other transaction documents related thereto (subject to a standard cure period), the failure of the Company to be able to pay debts as they come due, the commencement of bankruptcy or insolvency proceedings against the Company, a material judgment levied against the Company and a material default by the Company under the Convertible Note.

On the payment, repayment, dischargement, redemption or prepayment of the 2022 Note or upon a Successor Major Transaction Conversion (as defined in the 2022 Note), the Company will pay a non-refundable exit fee equal to 1.95% of the 2022 Note so paid, repaid, discharged, redeemed or prepaid, as the case may be.

The Company used the proceeds from the new 2022 Note to repay in full the outstanding amounts under its Second Amended and Restated Credit and Security Agreement (Term Loan), dated December 31, 2021, by and among the Company, certain of its wholly owned subsidiaries, the lenders party thereto and MidCap Financial Trust, as administrative agent and collateral agent (as amended, amended and restated, supplemented or otherwise modified prior to the date hereof, the "MidCap Term Credit Agreement") and repay in full the outstanding amounts, and terminate the outstanding commitments, under that certain Amended and Restated Credit and Security Agreement (Revolving Loan), dated as of July 1, 2019, by and among the Company, certain of its wholly owned subsidiaries, the lenders party thereto and MidCap Funding IV Trust, as administrative and collateral agent (as amended, amended and restated, supplemented or otherwise modified prior to the date hereof, the "MidCap Revolving Credit Agreement").

The Restated Agreement also provides for the issuance of warrants to purchase Common Stock (the "Warrants") to the extent that the obligations under Restated Agreement and the Convertible Notes are prepaid. If issued, the Warrants will be exercisable on a cash or cashless (net exercise) basis with an initial exercise price equal to the conversion price of the Original Note and 2022 Note, respectively, for the number of Conversion Shares (as defined in the Convertible Notes) which the repaid amount would have been convertible into and will be subject to the Beneficial Ownership Cap, as well as certain other customary anti-dilution adjustments upon the occurrence of certain events such as stock splits, subdivisions, reclassifications or combinations of Common Stock consistent with those included in the Convertible Notes. The Warrants will also provide, at the election of each holder thereof, for the payment of the exercise price therefor by reduction of the principal amount of any outstanding Convertible Notes held by such holder. Upon the consummation of a "Major Transaction" (as defined in the Warrants and consistent with the term as used in the Convertible Notes), holders of the Warrants may elect to (i) have their Warrants redeemed by the Company for an amount equal to the Black-Scholes value of such Warrant, in cash or, if applicable, in the form of the consideration paid to the Company's stockholders in a Major Transaction, or (ii) have such Warrants be assumed by the successor to the Company in a Major Transaction, if applicable. Holders of the Warrants are also entitled to participate in any dividends or distributions to holders of Common Stock at the time such dividends or distributions are paid to such stockholders. All Warrants under the Exchange Agreement with Deerfield, in connection with the Restated Agreement were exercised as of March 31, 2023. See Note 8 for additional details.

The Company may redeem all or any portion of the principal amount of the Convertible Notes for cash. Upon redemption of any Convertible Notes, the Company will issue Warrants covering the same number of shares of Common Stock underlying, and at an exercise price equal to the conversion price of, the redeemed Convertible Notes.

The Convertible Notes provide for the optional redemption of the Convertible Notes without issuance of any Warrants or payment of any additional make whole amount (unless such Convertible Note is converted following receipt of an optional redemption notice but prior to payment of the redemption amount) provided that each of the following is greater than 130% of the conversion price then in effect: (1) the volume weighted average price of the Common Stock on each of any twenty (20) trading days during the period of thirty (30) consecutive trading days ending on the date on which the Company delivers an optional redemption notice, (2) the volume weighted average price of the Common Stock on the last trading day of such period and (3) the closing price of the Common Stock on the last trading day of such period. The Company may not effect any optional redemption during a delisting event or unless all conversion shares and warrant shares are freely tradable.

As of September 30, 2023, there was $73.5 million of outstanding principal, reduced by unamortized debt discount and issuance costs of $14.6 million related to the convertible note included in “Current portion of long-term debt” on the condensed consolidated balance sheets. The Company amortizes the debt discount and debt issuance costs under the effective interest method over the term of the Note, at a resulting effective interest rate of approximately 12%. For the nine months ended September 30, 2023 and 2022, the amortization of the convertible debt discount and issuance costs were $3.6 million and $2.5 million, respectively. Both were included in interest expense in the condensed consolidated statements of operations.

The Company is subject to a number of affirmative and restrictive covenants, including covenants regarding compliance with applicable laws and regulations, maintenance of property, payment of taxes, maintenance of insurance, business combinations, incurrence of additional indebtedness, prepayments of other unsecured indebtedness and transactions with affiliates, among other covenants.

As of September 30, 2023, the Company was not in compliance with the minimum revenue financial covenant. In the event of default under the Restated Agreement, one of the remedies that Deerfield has available is the ability to accelerate repayment of the debt, which the Company would not be able to immediately repay. Additionally, Deerfield may elect that Default Interest of 2.0% shall be payable in cash on demand in addition to the applicable interest rate then in effect.

On October 30, 2023, the Company entered into the Temporary Waiver and Exchange Agreement with Deerfield, which provides for a temporary waiver of the event of default through January 15, 2024. Under the Temporary Waiver, the Company continues to be deemed in default and the uncertainty of the final resolution is unknown. For further details, see Note 12 Subsequent Events.

As a result of the above, the Company reclassified the Convertible Notes, net of unamortized debt discount and issuance costs, from a long-term liability to a current liability as of September 30, 2023.

Any additional amendments or waiver under the Restated Agreement may result in increased interest rates or premiums and more restrictive covenants and other terms less advantageous to the Company and may require the payment of a fee for such amendments, or waiver.

Term Loan and Revolving Loan

As noted above, the Company used the proceeds from the new 2022 Note to repay in full the outstanding amounts under its Term Loan and Revolving loan.

Accordingly, for the current year there was no amount outstanding under the Term Loan and the Revolving Loan and no unamortized debt issuance costs related to the Term Loan and the Revolving Loan.

The amortization of debt issuance costs on the term loan and the revolving loan was $0.2 million for both three months and nine months ended September 30, 2022, and was included in interest expense in the condensed consolidated statements of operations.

Future Principal Payments of Debt

The future principal payments for all outstanding debt as of September 30, 2023 are as follows (in thousands):

Fiscal Year		
2023	$	73,449
2024		—
2025		—
2026		—
2027 and thereafter		—
Total	$	73,449

8. 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, 2023 and December 31, 2022, the Company had no preferred stock issued or outstanding.

(b) Issuance of Common Stock

2022 Follow-on Public Offering

In October 2022, the Company completed a follow-on public offering of 1,778,500 shares of common stock and pre-funded warrants to purchase up to 2,221,499 shares of common stock and warrants to purchase 3,999,999 shares of common stock, at an offering price of $3.80 per share of common stock and warrant and $3.70 per pre-funded warrant and warrant, before underwriting discounts and commissions. Net proceeds were approximately $14.1 million, after deducting underwriting discounts, debt issuance cost, commissions and estimated expenses payable by the Company. As of September 30, 2023 and December 31, 2022, there were 4,657,799 warrants outstanding related to the follow-on public offering.

Exchange Agreement with Deerfield

In October 2022, the Company entered into an Exchange Agreement with Deerfield, in connection with the Restated Agreement, pursuant to which Deerfield exchanged $10.0 million of principal under the Original Note for 296,774 shares of our common stock and a pre-funded warrant to purchase 1,054,395 shares of our common stock (the "Exchange Warrants"), reducing the outstanding principal amount of the Original Note to $50.0 million. The Exchange Warrants are immediately exercisable, have an exercise price of $0.001 per share, and may be exercised on a cash or cashless basis at any time until all of the Exchange Warrants are exercised in full. Under the terms of the Exchange Warrants, a holder will not be entitled to exercise any portion of any such warrant, if, upon giving effect to such exercise, the aggregate number of shares of Common Stock beneficially owned by the holder (together with its affiliates, any other persons acting as a group together with the holder or any of the holder's affiliates, and any other persons whose beneficial ownership of Common Stock would or could be aggregated with the holder's for purposes of Section 13(d) or Section 16 of the Securities Exchange Act of 1934, as amended) would exceed 4.985% of the number of shares of Common Stock outstanding immediately after giving effect to the exercise.

The Exchange Agreement contains customary representations, warranties and agreements by the Company, customary conditions to closing, indemnification obligations of the Company, other obligations of the parties, and termination provisions.

As of September 30, 2023 and December 31, 2022, there were 0 and 303,804 warrants outstanding, respectively, related to the Exchange Agreement.

On October 30, 2023, the Company entered into the Temporary Waiver and Exchange Agreement with Deerfield, which provides for the exchange by Deerfield of $1.2 million of principal amount of the Convertible Notes into pre-funded warrants (“Pre-Funded Warrants”) to purchase shares of the Company’s stock, par value $0.01 per share (“Common Stock”). For further details, refer to Note 12 Subsequent Events.

(c) Stock Option Plans

In April 2007, the Company adopted the 2007 Equity Incentive Plan, or 2007 Plan. The 2007 Plan provides for the granting of stock options to employees, directors and consultants of the Company. A total of 169,045 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. A total of 102,750 shares of common stock were initially reserved for issuance under the 2014 Plan, subject to certain annual increases.

Pursuant to a board-approved Inducement Plan, the Company may issue NSOs and restricted stock unit awards 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, 2023, a total of 285,137 shares of the Company’s common stock were available for issuance under the 2014 Plan. As of September 30, 2023, inducement grants for 528,221 shares of common stock have been awarded, and 311,961 shares of common stock were reserved for future issuance under the Inducement Plan.

On June 22, 2023, the Company registered an additional 511,128 shares of the Registrant’s common stock to be issued pursuant to the Registrant’s 2016 Equity Inducement Plan.

On April 17, 2023, the Company registered an additional 428,098 shares of the Registrant’s common stock to be issued pursuant to the Registrant’s 2014 Equity Incentive 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. Compensation expense is recognized on a straight-lined basis over the vesting term of one year based upon the probable performance target that will be met. The vesting provisions of individual options may vary but provide for vesting of at least 25% per year.

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

	Option Shares	Weighted average exercise price	Weighted average remaining contractual term (year)
Balance at December 31, 2022	89,678	$ 42.78	7.11
Forfeited	(2,891)	143.86	
Balance at September 30, 2023	86,787	$ 39.41	6.54

For stock-based awards the Company recognizes compensation expense based on the grant date fair value using the Black-Scholes option valuation model. Stock-based compensation expense related to stock options for both the three months ended September 30, 2023 and 2022 was $0.2 million. Stock-based compensation expense related to stock options for both the nine months ended September 30, 2023 and 2022 was $0.5 million .

(d) Restricted Stock Units

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

Activity related to RSUs is set forth below:

	Number of shares		Weighted average grant date fair value
Balances at December 31, 2021	279,956	$	81.10
Granted	550,229		16.49
Vested	(88,035)		6.09
Forfeited	(33,344)		4.67
Balance at December 31, 2022	708,806	$	43.86
Granted	610,630		1.75
Vested	(168,146)		25.09
Forfeited	(77,040)		23.12
Balance at September 30, 2023	1,074,250	$	24.35

Stock-based compensation expense for RSUs for the three months ended September 30, 2023 and 2022 was $0.9 million and $1.5 million, respectively. Stock-based compensation expense for RSUs for the nine months ended September 30, 2023 and 2022 was $3.4 million and $5.2 million, respectively. As of September 30, 2023, there was $4.5 million of total unrecognized compensation costs related to non-vested RSU awards. The cost is expected to be recognized over a weighted average period of approximately 1.33 years.

(e) Employee Stock Purchase Plan

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

During the nine months ended September 30, 2023, employees purchased 244,726 shares of common stock at a weighted average price of $1.75 per share. As of September 30, 2023, the number of shares of common stock available for future issuance for the ESPP was 15,558. On April 17, 2023, the Company registered an additional 107,024 shares of the Registrant's common stock to be issued pursuant to the Registrant's 2014 Employee Stock Purchase Plan.

The Company estimated the fair value of employee stock purchase rights using the Black-Scholes model. Stock-based compensation expense related to the ESPP for both the three months ended September 30, 2023 and 2022 was $0.1 million. Stock-based compensation expense related to the ESPP was $0.4 million for both the nine months ended September 30, 2023 and 2022.

9. 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 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 dilutive shares consist of shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. 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 (in thousands, except per share and share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Loss from continuing operations	$ (14,773)	$ (14,887)	$ (37,142)	$ (51,118)
Loss from discontinued operations, net of income taxes	-	(94)	-	(208)
Net loss	$ (14,773)	$ (14,981)	$ (37,142)	$ (51,326)
Weighted average common shares outstanding, basic and diluted	11,290,699	6,284,817	11,488,310	6,261,350
Basic and diluted net loss per share				
Continuing operations	$ (1.31)	$ (2.37)	$ (3.23)	$ (8.16)
Discontinued operations	-	(0.01)	-	(0.03)
Basic and diluted net loss per share	$ (1.31)	$ (2.38)	$ (3.23)	$ (8.19)

The Company excluded the following weighted average potentially dilutive securities, outstanding for the three and nine months ended September 30, 2023 and 2022, from the computation of diluted net loss per share attributable to common stockholders for the three and nine months ended September 30, 2023 and 2022 because they had an anti-dilutive impact due to the net loss attributable to common stockholders incurred for the periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock issuable upon exercise of warrants	3,999,999	—	3,999,999	—
Stock issuable upon conversion of convertible note	4,118,181	1,463,415	4,118,181	1,463,415
Stock options to purchase common stock	166	—	1,041	166
Unvested RSUs	634,667	476,323	408,540	367,550
	8,753,013	1,939,738	8,527,761	1,831,130

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. The Company had no tax expense for both the three and nine months ended September 30, 2023 and 2022.

11. Commitments and 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.

Product Liability Litigation

On October 7, 2019, a lawsuit was filed in the Superior Court of the State of California against the Company and Silimed Industria de Implantes Ltda. (the Company's former contract manufacturer). The lawsuit alleges that the Company's textured breast implants caused certain of the plaintiffs to develop a condition known as breast implant associated anaplastic large cell lymphoma ("BIA-ALCL"), and that the Company is liable to the plaintiffs based on claims for strict liability (failure to warn), strict liability (defective manufacture), negligence and loss of consortium. On January 21, 2020, the Company filed a demurrer to the plaintiff's complaint, which demurrer the Court granted in a tentative ruling dated March 9, 2021 with leave to replead. The Plaintiffs filed an amended complaint on April 6, 2021 and the Company filed a demurrer to that complaint on May 6, 2021. On October 25, 2021, the Court issued a ruling granting the Company's demurrer in-part and denying it in-part, and gave plaintiffs twenty days to file an amendment complaint. On August 3, 2022, the Company entered into confidential settlement agreements with the plaintiffs resolving all disputes between them and dismissing the plaintiffs' claims with prejudice. The Court granted the dismissal with prejudice on August 4, 2022.

On September 23, 2020, a lawsuit was filed in the Eastern District of Tennessee against the Company. The lawsuit also alleges that the Company's textured breast implants caused certain of the plaintiffs to develop BIA-ALCL, and that the Company is liable to the plaintiffs based on claims for negligence, strict liability (manufacturing defects), strict liability (failure to warn), breach of express and implied warranties, and punitive damages. The Company filed a motion to dismiss the complaint on December 7, 2020. On February 28, 2022 the Court granted the Company's motion, and dismissed the plaintiff's complaint with prejudice. On March 28, 2022, the plaintiffs filed a motion to alter or amend the judgment. The Company opposed that motion on April 11, 2022. On March 31, 2023 the Court denied plaintiffs motion, and the plaintiffs have not filed any timely appeal from the Court's denial of their motion.

Grand Jury and SEC Subpoenas

The Company received a grand jury subpoena dated September 30, 2022 from the U.S. Department of Justice ("DOJ") requesting the production of materials concerning the trading activities of a former Chief Executive Officer of the Company in 2019 and 2020, including all documents and communications with the General Counsel regarding such activities. In addition, the SEC has subpoenaed documents and testimony from each of the Company and its General Counsel, as reported by the Company in its Form 8-K filing dated October 11, 2022. Each of the SEC subpoenas is captioned "In the Matter of Trading in the Securities of Sientra, Inc." The SEC subpoenas request, among other things, documents and communications relating to trading activities by each of the aforementioned individuals. The investigation by the SEC does not mean that the SEC has concluded that anyone has violated the law. Also, the investigation does not mean that the SEC has a negative opinion of any person, entity or security. On April 13, 2023, the DOJ informed the Company that the DOJ did not intend to pursue prosecutions relating to the subpoena and was closing its file with respect to the Company. On August 15, 2023, the SEC informed the Company that the SEC did not intend to recommend enforcement actions against the Company or its General Counsel.

12. Subsequent Events

On October 30, 2023 (the "Effective Date"), in connection with our non-compliance with the minimum revenue financial covenant of the Restated Agreement, the Company entered into the Temporary Waiver and Exchange Agreement under the Restated Agreement.

The Temporary Waiver and Exchange Agreement, among other matters, provides: (i) for a temporary waiver of the event of default that has occurred and is continuing under Section 7.1(b) of the Restated Agreement as a result of the Company's failure to satisfy the minimum revenue financial covenant for the fiscal quarter ending September 30, 2023 (the "Specified Event of Default") set forth in Section 6.10 of the Restated Agreement until the earliest to occur of (A) the first date following the Effective Date on which an Event of Default (as defined in the Restated Agreement) has occurred, other than the Specified Event of Default, (B) the failure of the Company, or the failure of the Company's subsidiaries party to the Restated Agreement, to comply with any term, condition or covenant set forth in the Temporary Waiver and Exchange Agreement and (C) January 15, 2024 (the "Waiver Period"); (ii) for the exchange by Deerfield of $1.2 million of principal amount of the Note into a pre-funded warrant (a "Pre-Funded Warrant") to purchase 886,635 shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), based upon 105.75% of the aggregate principal amount of the Note exchanged, plus the amount of accrued and unpaid interest thereon at an exchange rate equal to the Nasdaq official closing price of the Common Stock as of the Effective Date; and (iii) on or before January 15, 2024, Deerfield may (in its sole discretion) elect for the Company to convert up to an additional $18.8 million in aggregate of the principal amount of the Note into one or more Pre-Funded Warrants to purchase additional shares of the Company's Common Stock, based upon 105.75% of the aggregate principal amount of the Note to be converted, plus the amount of accrued and unpaid interest thereon at an conversion rate equal to the Nasdaq official closing price of the Common Stock as of the Effective Date.

The Pre-Funded Warrants have an exercise price of $0.01 per share and are exercisable at any time after issuance until such Pre-Funded Warrants have been fully exercised in accordance with their terms. The Pre-Funded Warrants are subject to a limitation on the ability to exercise if Deerfield's beneficial ownership of Common Stock (together with its affiliates and certain attribution parties) would exceed 4.985% of the outstanding Common Stock.

In addition, during the Waiver Period, for purposes of determining whether or not certain actions are permitted to be taken by or on behalf of the Company or any other loan party upon the satisfaction of any term, condition or requirement in the Restated Agreement or any other Facility Document (as defined in the Restated Agreement) that a default or event of default shall not have occurred and be continuing, the Specified Event of Default shall be deemed to have occurred and be continuing in respect of any such term, condition or requirement, except as set forth in the Temporary Waiver and Exchange Agreement.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2022 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations are contained in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on April 18, 2023, 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. and its consolidated subsidiaries.

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, and the impact of global economic conditions and public health crises and epidemics, such as the COVID-19 pandemic, on our business and industry. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q, the risks set forth in Part I, Item 1A, in the Annual Report, 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

Sientra, Inc. ("Sientra", the "Company," "we," "our" or "us") is a medical aesthetics company focused on empowering people to change their lives through increased self-confidence and self-respect. 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 fat transfer system in the U.S. for augmentation procedures 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 sell our breast implants, breast tissue expanders, fat transfer system, and the SimpliDerm human acellular dermal matrix (or ADM) for reconstruction procedures predominantly to hospitals and surgery centers, and our BIOCORNEUM scar management products to plastic surgeons, dermatologists and other specialties. Additionally, through a non-exclusive rights agreement in the United States, we market, sell and distribute SimpliDerm for select use in reconstruction surgery. We expanded outside of the United States, first in Japan following approval by the Japanese Pharmaceuticals and Medical Devices Agency, or "PDMA", in 2020, and subsequently, in the Kingdom of Saudi Arabia, or "KSA" following approval by the KSA Food and Drug Administrative in 2022, in Canada following Health Canada approval in 2022, and the United Arab Emirates, or "UAE", following approval by the UAE Ministry of Health and Prevention in 2022.

We have one operating segment in continuing operations named Plastic Surgery, formerly known as Breast Products. Our Plastic Surgery segment focuses on sales of our breast implants, tissue expanders, fat transfer, ADM, and scar management. Additionally, we leverage distributor relationships to sell our breast implants outside of the U.S.

Recent developments

Temporary Waiver

On October 30, 2023 (the “Effective Date”), the Company entered into a Temporary Waiver and Exchange Agreement (the “Temporary Waiver and Exchange Agreement”) under that certain Amended and Restated Facility Agreement, dated as of October 12, 2022 (as so amended and restated, and as the same may be further amended, modified, restated or otherwise supplemented from time to time from time to time, the “Restated Agreement”) by and among the Company as borrower, certain of the Company’s subsidiaries from time to time party thereto as guarantors and Deerfield Partners, L.P., as agent and lender (“Deerfield”). For further details, see Note 12 to the unaudited condensed consolidated financial statements.

FDA 510K Clearance of AlloX2 Pro

On June 8, 2023, the Company announced that it had received 510k clearance from the FDA for the Company’s novel, patented AlloX2 Pro Tissue Expander. Building upon the proprietary dual port technology of the Company’s ground-breaking AlloX2 tissue expander, the AlloX2 Pro expands this platform by removing 95% of the metal traditionally associated with tissue expander ports. This innovation allows the AlloX2 Pro to be labeled as MRI-conditional, making it the first tissue expander cleared in the United States for exposure to magnetic resonance imaging, an important screening tool for breast reconstruction patients. Other innovative features of the AlloX2 Pro include minimal interference with radiation therapy for post-mastectomy patients, faster port filling and drainage, and a softer drain for enhanced patient comfort.

FDA 510k Clearance of Portfinder Technology

On May 17, 2023, the Company announced that it had received 510k clearance from the FDA for the Company’s novel Portfinder technology. Portfinder is an electronic handheld device that allows for the subcutaneous location of ports in Sientra’s Dermaspan and AlloX2 Pro tissue expanders. This new technology replaces the traditional dangle magnet mechanism and provides a more accurate port location with improved useability for clinicians. The Portfinder’s unique interactive screen guides the user towards the center of the ports and allows for precise identification and marking of both fill and drain ports in Dermaspan and AlloX2 Pro expanders, making it a very versatile device.

Elutia Inc. Partnership

On March 22, 2023, the Company entered into an agreement with Elutia Inc. ("Elutia"), formally called Aziyo Biologics, Inc. (“Aziyo”) to expand the distribution of Elutia's SimpliDerm ADM product line. Under the agreement terms, Elutia granted the Company certain non-exclusive rights in the United States to market, sell and distribute SimpliDerm for select use in reconstruction surgery. The Company began commercial sales of the SimpliDerm product in the second quarter of 2023.

Commercial Launch of Viality Fat Transfer System

On March 1, 2023, we announced that we began commercial shipping of our Viality with AuraClens fat transfer system, which we had previously acquired on December 31, 2021 from AuraGen Aesthetics LLC. We also announced the release of interim results from our on-going, multi-center, long-term volume retention clinical study with Viality showing 80% fat retention at the 3- and 6-month time points. In October 2023, at the meeting of the American Society of Plastic Surgeons, we presented further interim results from our on-going, multi-center, long-term volume retention clinical study with Viality, showing 80% fat retention and the 3-, 6- and 12-month time points, and across all cohorts (augmentation and reconstruction).

Macroeconomic Trends and Uncertainties

The COVID-19 pandemic continues to have a lingering effect on our business and results of operations, although to a lesser extent than in prior years. At the height of the pandemic and as an aesthetics company, the surgical procedures involving our breast products were susceptible to local and national government restrictions. The inability or limited ability to perform non-emergency procedures significantly harmed our revenues starting the second quarter of 2020 and lasting through the first quarter of 2022. While restrictions on non-emergency procedures have been removed, there is still substantial uncertainty as to when, if at all, the aesthetic procedures that the Company's products are sold into will return to pre-pandemic levels.

In addition, the global economy, including the financial and credit markets, has recently experienced extreme volatility and disruptions, including increases to inflation rates, rising interest rates, declines in consumer confidence, declines in economic growth, and uncertainty about economic stability. The severity and duration of the impact of these conditions on our business cannot be predicted.

The estimates used for, but not limited to, determining the collectability of accounts receivable, fair value of long-lived assets and goodwill, and sales returns liability required could be impacted by the factors described above. Also, the ongoing uncertainty and the unpredictable nature of the macroeconomic environment could impact our estimates and assumptions utilized in our impairment tests, which may result in future impairments that could be material and negatively impact our results of operations. While the full impact and duration of the factors noted above is unknown at this time, the Company has made appropriate estimates based on the facts and circumstances available as of the reporting date. These estimates may change as new events occur and additional information is obtained.

Components of Operating Results

Net Sales

Our net sales primarily consist of sales of silicone gel breast implants, tissue expanders, Viality fat transfer, SimpliDerm ADM, BIOCORNEUM, and sizers. Excluding Viality, BIOCORNEUM, international sales, and inventory held on consignment, we recognize revenue on breast implants, tissue expanders and SimpliDerm ADM, net of sales discounts and estimated returns, as the customer has a standard three-month (for breast implants and tissue expanders) and thirty-day (for SimpliDerm ADM) window to return purchased products. We recognize revenue on Viality, BIOCORNEUM scar management products, inventory held on consignment, and products sold to international customers at a point in time upon shipment or upon customer receipt of the product depending on shipping terms. We defer the value of our service warranty revenue and recognize it once all performance obligations have been met.

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

Cost of Goods Sold and Gross Margin

Cost of goods sold consists primarily of raw material, labor, overhead, and variable manufacturing costs, reserve for returns, reserve for product assurance warranties, royalty costs, excess and obsolete inventory reserves, amortization of manufacturing know-how and developed technology intangible assets, and warehouse and other related costs.

With respect to our supplier contracts, all our products and raw materials are manufactured under contracts with fixed unit costs which can increase over time at specified amounts.

We provide an assurance and service warranty on our silicone gel breast implants. The estimated warranty costs are recorded at the time of sale. Costs related to our service warranty are recorded when expense is incurred related to meeting our performance obligations.

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

Sales and Marketing Expenses

Our sales and marketing expenses primarily consist of salaries, bonuses, benefits, incentive compensation, stock-based compensation, consumer marketing, 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 and promotional activities. We expect our sales and marketing expenses to fluctuate in future periods as a result of headcount and timing of our marketing programs.

Research and Development Expenses

Our research and development, or R&D, expenses primarily consist of clinical expenses, product development costs, regulatory expenses, consulting services, outside research activities, quality control and other costs associated with the development of our products and compliance with Good Clinical Practices, or GCP, requirements. R&D expenses also include related personnel and consultant compensation, stock-based compensation expense, and amortization expense, related to acquired developed technology until the commencement of commercial operations. 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 clinical studies.

General and Administrative Expenses

Our general and administrative, or G&A, expenses primarily consist of salaries, bonuses, benefits, incentive compensation and stock-based compensation for our executive, financial, legal, and administrative functions. Other G&A expenses include contingent consideration fair market value adjustments, bad debt expense, outside legal counsel and litigation expenses, independent auditors and other outside consultant expenses, as well as corporate insurance, facilities and information technologies expenses. We expect future G&A expenses to remain consistent with the current period, excluding variability due to contingent consideration fair market value adjustments, and expect to continue to incur G&A expenses in connection with operating as a public company.

Interest Income

Interest income primarily consists of interest earned on our cash and cash equivalents.

Interest Expense

Interest expense primarily consists of interest expense and amortization of issuance costs associated with our debt agreements.

Change in Fair Value of Derivative Liability

Change in fair value of derivative reflects the non-cash change in the fair value of derivatives.

Other Income (Expense), net

Other income (expense), net primarily consists of results of discontinued operation, and other miscellaneous income or expense items.

Income Taxes

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

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. We evaluate our estimates and judgments on an ongoing basis. 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 our financial condition and results of operations that are not readily apparent from other sources. Actual results may differ from these estimates. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in Note 1 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

See Note 1 to our condensed consolidated financial statements included elsewhere in this Quarterly Report.

Results of Operations

Comparison of the Three Months Ended September 30, 2023 and 2022

The following table sets forth our results of operations for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30,	
	2023	2022
	(In thousands)	
Statement of operations data		
Net sales	$ 19,544	$ 22,570
Cost of goods sold	9,515	9,794
Gross profit	10,029	12,776
Operating expenses		
Sales and marketing	9,330	12,290
Research and development	2,476	3,720
General and administrative	7,620	9,324
Total operating expenses	19,426	25,334
Loss from operations	(9,397)	(12,558)
Other (expense) income, net		
Interest income	168	41
Interest expense	(2,367)	(2,364)
Change in fair value of derivative liability	(3,153)	—
Other (expense) income, net	(24)	(6)
Total other (expense) income, net	(5,376)	(2,329)
Loss from continuing operations before income taxes	(14,773)	(14,887)
Income tax expense	—	—
Loss from continuing operations	(14,773)	(14,887)
Loss from discontinued operations, net of income taxes	—	(94)
Net loss	$ (14,773)	$ (14,981)

Net Sales

Net sales decreased approximately $3.0 million, or 13.4%, to $19.5 million for the three months ended September 30, 2023 as compared to $22.6 million for the three months ended September 30, 2022. The decrease was primarily due to the decrease in volume of domestic sales of gel implants and sales of expanders due to overall softness in the market as well as more pronounced seasonal headwinds that led to a reduced number of augmentation and reconstruction cases during the third quarter as well as the decrease in volume was partially offset by incremental revenue from our new products Viality and SimpliDerm.

Cost of Goods Sold and Gross Margin

Cost of goods sold decreased approximately $0.3 million, or 2.8%, to $9.5 million for the three months ended September 30, 2023 as compared to $9.8 million for the three months ended September 30, 2022. The decrease was primarily driven by a decrease in the volume of domestic sales of gel implants and expanders. This was partially offset by an increase in amortization of Viality-related developed technology intangible assets, which was previously recorded in operating expenses in the prior period.

Gross margins for the three months ended September 30, 2023 and 2022 were approximately 51.3% and 56.6%, respectively. The decrease was primarily due to the increase in amortization of Viality-related developed technology intangible assets, which was previously recorded in operating expenses in the prior period.

Sales and Marketing Expenses

Sales and marketing expenses decreased approximately $3.0 million, or 24.1%, to $9.3 million for the three months ended September 30, 2023 as compared to $12.3 million for the three months ended September 30, 2022. The decrease was primarily due to decreases in employee payroll related expenses, commission expense, marketing initiatives, and shipping expenses.

Research and Development Expenses

R&D expenses decreased approximately $1.2 million, or 33.4%, to $2.5 million for the three months ended September 30, 2023 as compared to $3.7 million for the three months ended September 30, 2022. The decrease was primarily due to reduction in costs related to regulatory activities, and product development expense as Viality was launched commercially during the first quarter of 2023. Additionally, the decrease was due to the amortization of Viality-related developed technology intangible assets, which is now recorded in cost of goods sold in the current period.

General and Administrative Expenses

G&A expenses decreased approximately $1.7 million, or 18.3%, to $7.6 million for the three months ended September 30, 2023 as compared to $9.3 million for the three months ended September 30, 2022. The decrease was primarily due to reductions consulting expense, insurance fees, and bad debt expense.

Other Expense (Income), net

Other (expense) income, net increased period over period primarily due to increase in fair value of its derivative liability associated with the convertible notes, and due to increase in interest expense and discount amortization related to our convertible notes.

Income Tax Expense

For the three months ended September 30, 2023 and 2022, there was no income tax expense.

Comparison of the Nine Months Ended September 30, 2023 and 2022

The following table sets forth our results of operations for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,	
	2023	2022
	(In thousands)	
Statement of operations data		
Net sales	$ 65,231	$ 65,481
Cost of goods sold	30,440	27,118
Gross profit	34,791	38,363
Operating expenses		
Sales and marketing	29,487	41,542
Research and development	7,571	9,823
General and administrative	24,805	31,589
Total operating expenses	61,863	82,954
Loss from operations	(27,072)	(44,591)
Other (expense) income, net		
Interest income	458	58
Interest expense	(7,250)	(6,584)
Change in fair value of derivative liability	(3,153)	—
Other (expense) income, net	(125)	(1)
Total other (expense) income, net	(10,070)	(6,527)
Loss from continuing operations before income taxes	(37,142)	(51,118)
Income tax expense	—	—
Loss from continuing operations	(37,142)	(51,118)
Income from discontinued operations, net of income taxes	—	(208)
Net loss	$ (37,142)	$ (51,326)

Net Sales

Net sales decreased approximately $0.3 million, or 0.4% to $65.2 million for the nine months ended September 30, 2023 as compared to $65.5 million for the nine months ended September 30, 2022. The decrease was primarily due to the decrease in the volume of domestic sales of gel implants in the augmentation market, resulting from overall softness in the market that led to a reduced number of augmentation cases. The decrease in volume was offset by an increase in volume of domestic sales of gel implants and expanders in the reconstruction market coupled with incremental revenue from our new products Viality and SimpliDerm.

Cost of Goods Sold and Gross Margin

Cost of goods sold increased approximately $3.3 million, or 12.3%, to $30.4 million for the nine months ended September 30, 2023 as compared to $27.1 million for the nine months ended September 30, 2022. The increase was primarily due to the amortization of Viality-related manufacturing developed technology intangible assets, which was recorded in operating expenses in the prior period, and was also driven by an increase in inventory provisions.

Gross margins for the nine months ended September 30, 2023 and 2022 were approximately 53.3% and 58.6%, respectively. The decrease was primarily due to the aforementioned amortization of Viality-related developed technology intangible assets, coupled with expenses related to inventory provisions and decrease in sales.

Sales and Marketing Expenses

Sales and marketing expenses decreased approximately $12.1 million, or 29.0%, to $29.5 million for the nine months ended September 30, 2023 as compared to $41.5 million for the nine months ended September 30, 2022. The decrease was primarily due to decreases in employee payroll related expenses, commission expense, marketing initiatives, travel and entertainment expenses, stock compensation expense and shipping expenses.

Research and Development Expenses

R&D expenses decreased approximately $2.3 million, or 22.9%, to $7.6 million for the nine months ended September 30, 2023 as compared to $9.8 million for the nine months ended September 30, 2022. The decrease was primarily due to reduction in costs related to regulatory activities, and product development expense as Viality was launched commercially the first quarter of 2023.

General and Administrative Expenses

G&A expenses decreased approximately $6.8 million, or 21.5%, to $24.8 million for the nine months ended September 30, 2023 as compared to $31.6 million for the nine months ended September 30, 2022. The decrease was primarily due to reduction in amortization of Viality-related developed technology intangible assets, which is recorded in cost of goods sold in the current period, as well as reductions in payroll related expenses, consulting expense, insurance fees, and bad debt expense.

Other Expense (Income), net

Other (expense) income, net increased period over period primarily due to an increase in fair value of its derivative liability associated with the convertible notes, and due to increase in interest expense and discount amortization related to our convertible notes.

Income Tax Expense

For the nine months ended September 30, 2023 and 2022, there was no income tax expense.

Liquidity and Capital Resources

Since the Company's inception, it has incurred recurring losses and cash outflows from operations and the Company anticipates that losses will continue in the near term. During the nine months ended September 30, 2023, the Company incurred net losses of $37.1 million and used $11.0 million of cash from continuing operations. As of September 30, 2023, the Company had cash and cash equivalents of $15.0 million. As a result of these conditions substantial doubt exists about our ability to continue as a going concern for a period of at least one year from the date of issuance of these unaudited condensed consolidated financial statements. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In an effort to alleviate these conditions, management is currently evaluating various cost-saving measures in order to reduce operating expenses and cash outflows. However, the Company will need to generate a significant increase in net sales to further improve profitability and cash inflows, which is dependent upon continued growth in our Plastic Surgery segment and the launch of new products and partnerships. Additionally, we are evaluating various funding alternatives to improve liquidity and may seek to raise additional equity or debt capital, refinance our debt obligations or obtain waivers, and/or scale back or freeze our organic growth plans to manage our liquidity and capital resources. As the Company seeks additional sources of financing, there can be no assurance that such financing would be available to the Company on favorable terms or at all. The Company's ability to obtain additional financing in the equity capital markets is subject to several factors, including market and economic conditions, the Company's performance and investor sentiment with respect to the Company and its industry.

On October 25, 2022, we issued and sold 1,778,500 shares of our common stock and pre-funded warrants to purchase up to 2,221,499 shares of our common stock and warrants to purchase 3,999,999 shares of our common stock, at an offering price of $3.80 per share of common stock and warrant and $3.70 per pre-funded warrant and warrant, before underwriting discounts and commissions. The net proceeds to the Company were approximately $14.0 million, after deducting underwriting discounts and commissions and estimated expenses payable by the Company.

Contractual Obligations and Commitments

Our principal commitments consist of obligations under the Restated Agreement, contingent consideration milestone payments related to past acquisitions, and capital expenditures to grow our business or capital initiatives that reduce operating costs.

Debt financing

Refer to Note 7 to the unaudited condensed consolidated financial statements for a full description and updates to all of our long-term debt, revolving line of credit, and convertible notes.

Debt and Covenant Compliance

As of September 30, 2023, the Company did not meet the required minimum revenue financial covenant under the Restated Agreement. The Company was in compliance with all other financial covenants.

Under the Restated Agreement, one of the remedies that Deerfield has available is the ability to accelerate repayment of the debt, which the Company would not be able to immediately repay. The potential acceleration of the debt by Deerfield resulted in the reclassification of the debt from a long-term liability to a current liability as of September 30, 2023.

On October 30, 2023, the Company entered into a Temporary Waiver and Exchange Agreement ("The Temporary Waiver and Exchange Agreement") with Deerfield, which provides for a temporary waiver of the event of default through January 15, 2024. For further details, see Note 12 to our condensed consolidated financial statements. The Company's inability to meet the required financial covenants could have a material adverse impact to the Company, including the need for the Company to effect an additional amendment, waiver, or other additional changes in the Restated Agreement.

Any additional amendments or waiver under the Restated Agreement may result in increased interest rates or premiums and more restrictive covenants and other terms less advantageous to us and may require the payment of a fee for such amendments or waiver.

Cash Flows

The following table shows a summary of our cash flows (used in) provided by operating, investing and financing activities from continuing operations, as well as from discontinued operations for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2023	2022
Net cash (used in) provided by:		
Operating activities - continuing operations	$ (10,159)	$ (33,450)
Investing activities - continuing operations	(1,056)	(1,856)
Financing activities - continuing operations	170	2,716
Net decrease in cash, cash equivalents and restricted cash from continuing operations	(11,045)	(32,590)
Net cash used in discontinued operations	—	(208)
Net decrease in cash, cash equivalents and restricted cash	$ (11,045)	$ (32,798)

Cash flows from operating activities of continuing operations

Net cash used in operating activities was $10.2 million during the nine months ended September 30, 2023 as compared to $33.5 million during the nine months ended September 30, 2022. The decrease in cash used in operating activities between the nine months ended September 30, 2023 and 2022 was the result of the decrease in net loss from continuing operations, and favorable working capital improvements, primarily associated with the changes in accounts receivable and inventory, slightly offset by changes in accounts payable, and accrued and other liabilities.

Cash flows from investing activities of continuing operations

Net cash used in investing activities was $1.1 million during the nine months ended September 30, 2023 and $1.9 million the nine months ended September 30, 2022. The decrease in cash used in investing activities was due to a decrease in cash outflows related to leasehold improvements associated with the Company's office relocation in the prior year.

Cash flows from financing activities of continuing operations

Net cash provided by financing activities was $0.2 million during the nine months ended September 30, 2023 as compared to $2.7 million during the nine months ended September 30, 2022. The decrease in cash provided by financing activities was primarily due the absence of borrowings under the Term Loan and Revolving Loan in the current period.

Cash flows from discontinued operations

Net cash used by discontinued operations was $0.2 million for the nine months ended September 30, 2022 and is related to the cash provided by operating activities following the sale of the miraDry business.

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

- the ability of our implant manufacturing facility in Franklin, Wisconsin to meet capacity to meet customer requirements and maintain unit costs that will drive gross margin;
- the ability of our third-party tissue expander manufacturing facility operated by SiMatrix to meet capacity to meet customer requirements;
- net sales generated and any other future products that we may develop and commercialize;
- the scope and duration of the COVID-19 pandemic and its effect on our operations;
- costs associated with expanding our sales force and marketing programs;
- cost associated with developing and commercializing our proposed products or technologies;
- expenses we incur in connection with potential litigation or governmental investigations;
- cost of obtaining and maintaining regulatory clearance or approval for our current or future products;
- cost of ongoing compliance with regulatory requirements, including compliance with Sarbanes-Oxley;
- anticipated or unanticipated capital expenditures; and
- unanticipated G&A expenses.

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

- support of our sales and marketing efforts related to our current and future products;
- new product acquisition and development efforts;

- facilities expansion needs; and
- investment in inventory required to meet customer demands.

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” in our Annual Report on Form 10-K.

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

Under SEC rules and regulations, as a smaller reporting company we are not required to provide the information required by this item.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure 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, or "CEO", and Chief Financial Officer, or "CFO", as appropriate, to allow timely decisions regarding required disclosure.

As of September 30, 2023, we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, 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 that evaluation, the CEO and CFO concluded that the Company’s disclosure controls and procedures were not effective as of September 30, 2023 as a result of the material weakness described in our Annual Report on Form 10-K and below.

The control environment was ineffective in holding individuals accountable for the operation of their internal control responsibilities. As a result, certain process-level controls related to the estimate of our warranty reserve, calculation of our deferred revenue associated with our service-based warranty, and inventory costs did not operate effectively. This deficiency did not result in an adjustment but still represented a material weakness in our internal control over financial reporting as of December 31, 2022, because there is a reasonable possibility that material misstatements to our consolidated financial statements would not be prevented or detected on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management’s Remediation Plan

As disclosed in our Annual Report, we have identified and begun to implement several actions designed to remediate the material weakness. Our remediation process includes, but is not limited to communicating expectations over performance of controls, monitoring for compliance with those expectations, and holding individuals accountable for their roles related to internal control over financial reporting.

Changes in Internal Control over Financial Reporting

Except as discussed above, there have been no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act, that occurred during the period covered by this Quarterly Report on Form 10-Q 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

From time to time, we are involved in legal proceedings and regulatory proceedings arising out of our operations. We establish reserves for specific liabilities in connection with legal actions that we deem to be probable and estimable. The ability to predict the ultimate outcome of such matters involves judgments, estimates, and inherent uncertainties. The actual outcome of such matters could differ materially from management's estimates. Information regarding certain legal proceedings is provided in this Quarterly Report in Note 11 of the condensed consolidated financial statements.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes from the risk factors disclosed in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which are incorporated herein by reference.

Due to the delayed filing with the Securities and Exchange Commission of our Form 10-K for the year ended December 31, 2022, we are not currently eligible to use a registration statement on Form S-3 to register the offer and sale or resale of securities, which may adversely affect our ability to raise future capital or complete acquisitions.

As a result of the late filing with the Commission of this Form 10-K for the year ended December 31, 2022, we will not be eligible to register the offer and sale of our securities using a registration statement on Form S-3 until we have timely filed all periodic reports required under the Securities Exchange Act of 1934 for one year, and there can be no assurance that we will be able to file all such reports in a timely manner in the future. Should we wish to register the offer and sale of additional securities to the public, our transaction costs and the amount of time required to complete the transaction could increase, making it more difficult to execute any such transaction successfully and potentially harming our business, strategic plan and financial condition.

The Temporary Waiver we received from Deerfield does not permanently waive the event of default under our Restated Agreement, and if we are not able to reach an agreement with respect to a permanent waiver with Deerfield or refinance the Restated Agreement, upon termination of the Temporary Waiver we may have an ongoing event of default under the Restated Agreement.

As of September 30, 2023, we had an event of default under the Restated Agreement with Deerfield as a result of our failure to satisfy the minimum revenue financial covenant for the fiscal quarter ending September 30, 2023. On October 30, 2023 (the "Waiver Date"), we entered into a Temporary Waiver and Exchange Agreement (the "Temporary Waiver and Exchange Agreement") under the Restated Agreement which, among other things, provides for a temporary waiver of the aforementioned event of default until the earliest of (A) a further event of default under the Restated Agreement, (B) failure to comply with the terms of the Temporary Waiver and Exchange Agreement and (C) January 15, 2024 (the "Waiver Period").

If we fail to reach an agreement with Deerfield for a permanent waiver with Deerfield during the Waiver Period or otherwise refinance the Restated Agreement, we will again be in non-compliance with the Restated Agreement. After the Waiver Period, if we are in default under the Restated Agreement Deerfield may, among other things, elect that Default Interest of 2.0% be payable in cash on demand in addition to the the applicable interest rate, or accelerate repayment of the debt, which we would not be able to immediately repay. Although we, together with our financial partners, are exploring strategic alternatives to improve our balance sheet and provide the strongest path forward for our continued success, there is no guarantee we will be able to do so on acceptable terms to us, or at all. In the event we have an ongoing event of default after the expiration of the Waiver Period and required to pay the Default Interest Rate or the full amount of the debt outstanding under the Restated Agreement, we may not have sufficient liquidity to satisfy operating expenses, capital expenditures and other cash needs to fund our business operations as we currently operate, forcing us to potentially curtail our activities and significantly reduce or cease certain operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

As a “smaller reporting company,” as defined by Rule 12b-2 of the Exchange Act, we are not required to provide the information in this Item.

ITEM 6. EXHIBITS

The following exhibits are filed or furnished as part of this report:

Number	Description
4.1	Form of Pre-Funded Warrant (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC on October 31, 2023).
10.1	Temporary Waiver and Exchange Agreement, dated as of October 30, 2023, among Sientra, Inc., the other loan parties party thereto and Deerfield Partners, L.P. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on October 31, 2023).
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Instance Document - the instance document does not appear in the interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SIENTRA, INC.
November 13, 2023	By: /s/ Ronald Menezes Ronald Menezes President and Chief Executive Officer
November 13, 2023	By: /s/ Andrew C. Schmidt Andrew C. Schmidt Chief Financial Officer and Treasurer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald Menezes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sientra, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023	/s/ Ronald Menezes
	Ronald Menezes
	President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew C. Schmidt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sientra, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

/s/ Andrew C. Schmidt

Andrew C. Schmidt

Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Ronald Menezes, Chief Executive Officer of Sientra, Inc. (the “Company”), hereby certifies that to the best of his knowledge:

(1) The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2023, to which this Certification is attached as Exhibit 32.1 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2023	/s/ Ronald Menezes
	Ronald Menezes
	President and Chief Executive Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Sientra, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Andrew C. Schmidt, Chief Financial Officer and Treasurer of Sientra, Inc. (the “Company”), hereby certifies that to the best of his knowledge:

(1) The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2023, to which this Certification is attached as Exhibit 32.2 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2023

/s/ Andrew C. Schmidt

Andrew C. Schmidt

Chief Financial Officer and Treasurer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Sientra, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.