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

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-36709

SIENTRA, INC.

(Exact Name of Registrant as Specified in its Charter)

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

420 South Fairview Avenue, Suite 200 93117

Santa Barbara, California (Zip Code)

(Address of Principal Executive Offices)

(805) 562-3500

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

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

SIENTRA, INC.

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

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

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIENTRA, INC.

Condensed Consolidated Balance Sheets

(In thousands, except per share and share amounts)

(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

SIENTRA, INC.

Condensed Consolidated Statements of Operations

(In thousands, except per share and share amounts)

(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

SIENTRA, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

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

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

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

See accompanying notes to condensed consolidated financial statements.

SIENTRA, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Formation and Business of the Company

a. Formation

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

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

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

b. Acquisition of miraDry

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

c. Regulatory Review of Vesta Manufacturing

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

d. Follow-On Offering

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

2. Summary of Significant Accounting Policies

a. Basis of Presentation

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

b. Liquidity

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

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

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

c. Use of Estimates

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

d. Significant Accounting Policies

Revenue Recognition

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

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

e. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

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

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

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

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

Assets			
Accounts receivable, net of allowances	$6,569	3,906	10,475
Liabilities			
Sales return liability	$—	3,906	3,906

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

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

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

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

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

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

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Recently Issued Accounting Standards

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

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

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

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

f. Reclassifications

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

3. Revenue

Revenue Recognition

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

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

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

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

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

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

Arrangements with Multiple Performance Obligations

The Company has determined that the delivery of each unit of product in the Company’s revenue contracts with customers is a separate performance obligation. The Company’s revenue contracts may include multiple products or services, each of which is considered a separate performance obligation. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on observable prices or using an expected cost plus margin approach when an observable price is not available. The Company invoices customers once products are shipped or delivered to customers depending on the negotiated shipping terms.

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

Practical Expedients and Policy Election

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

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

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

4. Acquisitions

a. Acquisition of miraDry

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

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

The Company funded the cash consideration, including the debt payoff amount with cash on hand. The cash consideration included the payoff of miraDry's existing term loan, or the Note Purchase Agreement dated January 27, 2017 and bridge loan, or the January 2017 Bridge Loan, including interest. The deferred consideration related to cash held back to be used for either potential litigation-related expenses or for payments to certain former investors of miraDry, as defined in the Note Purchase Agreement dated January 27, 2017, one year following the Acquisition Date. Upon reaching one year, the deferred consideration has been classified as $0.4 million of legal settlement payable in the condensed consolidated balance sheet and $0.6 million has offset legal fees paid that the Company had previously included in “prepaid expenses and other current assets” on the condensed consolidated balance sheet. Contingent consideration of future cash payments of a maximum of $14.0 million represents the contractual right of certain former miraDry shareholders to receive one or more contingent payments upon achievement of certain future sales milestones and includes certain amounts due to investors related to the remaining balances on the January 2017 Bridge Note and accrued royalty obligations, with certain amounts held back for potential litigation-related expenses. The fair value of the contingent consideration at the acquisition date was determined using a Monte-Carlo simulation model. The inputs include the estimated amount and timing of future net sales, and a risk-adjusted discount rate. The inputs are significant inputs not observable in the market, which are referred to as Level 3 inputs and are further discussed in Note 6. The contingent consideration component is subject to the recognition of subsequent changes in fair value through general and administrative expense in the condensed consolidated statement of operations.

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

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

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

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

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

$14,800

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

Unaudited Pro Forma Information

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

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

5. Fair Value of Financial Instruments

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

6. Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

7. Product Warranties

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

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

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

8. Net Loss Per Share

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

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

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

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

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

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9. Balance Sheet Components

a. Allowance for Doubtful Accounts

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

b. Inventories

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

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

c. Prepaid Expenses and Other Current Assets

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

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

d. Property and Equipment

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

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

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

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

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

e. Goodwill and Other Intangible Assets, net

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

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

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

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

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

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

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

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

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

f. Accrued and Other Current Liabilities

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

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

10. Long-Term Debt and Revolving Loan

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

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

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

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

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

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

Future Principal Payments of Debt

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

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