

Sientra, Inc.
Form 10-Q
August 07, 2018

18

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 June 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

Edgar Filing: Sientra, Inc. - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

(Do not check if a 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 August 2, 2018, the number of outstanding shares of the registrant's common stock, par value \$0.01 per share, was 28,427,655.

SIENTRA, INC.

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

TABLE OF CONTENTS

| | Page |
|--|------|
| <u>Part I — Financial Information</u> | 1 |
| <u>Item 1. Condensed Consolidated Financial Statements - Unaudited</u> | 1 |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u> | 1 |
| <u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2018 and 2017</u> | 2 |
| <u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017</u> | 3 |
| <u>Notes to the Condensed Consolidated Financial Statements</u> | 4 |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 39 |
| <u>Item 4. Controls and Procedures</u> | 39 |
| <u>Part II — Other Information</u> | 40 |
| <u>Item 1. Legal Proceedings</u> | 40 |
| <u>Item 1A. Risk Factors</u> | 40 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 70 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 70 |
| <u>Item 4. Mine Safety Disclosures</u> | 70 |
| <u>Item 5. Other Information</u> | 70 |
| <u>Item 6. Exhibits</u> | 73 |

“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”, and “ML Stylized mark” 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 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)

| | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 112,619 | \$ 26,588 |
| Accounts receivable, net of allowances of \$1,393 and \$4,816 at June 30, 2018 and December 31, 2017, respectively | 16,330 | 6,569 |
| Inventories, net | 22,487 | 20,896 |
| Prepaid expenses and other current assets | 6,516 | 1,512 |
| Total current assets | 157,952 | 55,565 |
| Property and equipment, net | 2,247 | 4,763 |
| Goodwill | 12,507 | 12,507 |
| Other intangible assets, net | 17,646 | 18,803 |
| Other assets | 708 | 575 |
| Total assets | \$ 191,060 | \$ 92,213 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 6,663 | \$ 24,639 |
| Accounts payable | 11,637 | 5,811 |
| Accrued and other current liabilities | 22,337 | 13,474 |
| Legal settlement payable | — | 1,000 |
| Customer deposits | 6,025 | 5,423 |
| Sales return liability | 4,882 | — |
| Total current liabilities | 51,544 | 50,347 |
| Long-term debt | 28,032 | — |
| Deferred and contingent consideration | 6,070 | 12,597 |
| Warranty reserve and other long-term liabilities | 2,500 | 1,646 |
| Total liabilities | 88,146 | 64,590 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value – Authorized 10,000,000 shares; none issued or outstanding | — | — |
| Common stock, \$0.01 par value — Authorized 200,000,000 shares; issued 28,390,271 and 19,474,702 and outstanding 28,317,544 and 19,401,975 shares at June 30, 2018 and | 284 | 194 |

Edgar Filing: Sientra, Inc. - Form 10-Q

| | | |
|--|------------|------------|
| December 31, 2017 respectively | | |
| Additional paid-in capital | 419,811 | 307,159 |
| Treasury stock, at cost (72,727 shares at June 30, 2018 and December 31, 2017) | (260) | (260) |
| Accumulated deficit | (316,921) | (279,470) |
| Total stockholders' equity | 102,914 | 27,623 |
| Total liabilities and stockholders' equity | \$ 191,060 | \$ 92,213 |

See accompanying notes to condensed consolidated financial statements.

1

SIENTRA, INC.

Condensed Consolidated Statements of Operations

(In thousands, except per share and share amounts)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------|------------------|--------------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$ 17,554 | \$ 8,169 | \$ 32,229 | \$ 15,658 |
| Cost of goods sold | 6,660 | 2,621 | 12,756 | 4,942 |
| Gross profit | 10,894 | 5,548 | 19,473 | 10,716 |
| Operating expenses: | | | | |
| Sales and marketing | 15,477 | 6,163 | 30,733 | 13,119 |
| Research and development | 2,301 | 1,573 | 5,052 | 4,766 |
| General and administrative | 10,014 | 8,022 | 19,514 | 14,458 |
| Legal settlement | — | 10,000 | — | 10,000 |
| Total operating expenses | 27,792 | 25,758 | 55,299 | 42,343 |
| Loss from operations | (16,898) | (20,210) | (35,826) | (31,627) |
| Other income (expense), net: | | | | |
| Interest income | 40 | 37 | 80 | 59 |
| Interest expense | (867) | (185) | (1,521) | (194) |
| Other income (expense), net | (303) | (4) | (184) | 4 |
| Total other income (expense), net | (1,130) | (152) | (1,625) | (131) |
| Loss before income taxes | (18,028) | (20,362) | (37,451) | (31,758) |
| Income tax expense | — | 29 | — | 54 |
| Net loss | \$ (18,028) | \$ (20,391) | \$ (37,451) | \$ (31,812) |
| Basic and diluted net loss per share attributable to | | | | |
| common stockholders | \$ (0.73) | \$ (1.07) | \$ (1.69) | \$ (1.68) |
| Weighted average outstanding common shares used | | | | |
| for net loss per share attributable to common | | | | |
| stockholders: | | | | |
| Basic and diluted | 24,761,117 | 19,132,052 | 22,202,565 | 18,953,500 |

See accompanying notes to condensed consolidated financial statements.

SIENTRA, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|-------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$(37,451) | \$(31,812) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,700 | 1,159 |
| Provision for doubtful accounts | 489 | 27 |
| Provision for warranties | 572 | 119 |
| Provision for inventory | 709 | (50) |
| Amortization of acquired inventory step-up | 106 | 417 |
| Change in fair value of warrants | 164 | 83 |
| Change in fair value of deferred consideration | 18 | (14) |
| Change in fair value of contingent consideration | 1,708 | 463 |
| Change in deferred revenue | (161) | — |
| Amortization of debt discount and issuance costs | 85 | 144 |
| Stock-based compensation expense | 5,686 | 3,182 |
| Loss on disposal of property and equipment | — | 12 |
| Deferred income taxes | — | 54 |
| Changes in assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | (6,343) | 47 |
| Inventories | (2,405) | 1,716 |
| Prepaid expenses, other current assets and other assets | (2,518) | (2,395) |
| Insurance recovery receivable | 33 | 9,277 |
| Accounts payable | 4,230 | (1,264) |
| Accrued and other liabilities | 1,643 | 4,648 |
| Legal settlement payable | (1,000) | (900) |
| Customer deposits | 602 | (697) |
| Sales return liability | 976 | — |
| Net cash used in operating activities | (31,157) | (15,784) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (160) | (1,580) |
| Net cash used in investing activities | (160) | (1,580) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 410 | 1,096 |
| Proceeds from issuance of common stock under ESPP | 391 | 324 |
| Tax payments related to shares withheld for vested restricted stock units (RSUs) | (1,297) | (569) |
| Net proceeds from issuance of common stock | 107,850 | — |
| Gross borrowings under the Term Loan | 10,000 | — |

Edgar Filing: Sientra, Inc. - Form 10-Q

| | | |
|---|-----------|----------|
| Gross borrowings under the Revolving Loan | 12,109 | 5,000 |
| Repayment of the Revolving Loan | (12,109) | — |
| Deferred financing costs | (6) | (204) |
| Net cash provided by financing activities | 117,348 | 5,647 |
| Net increase (decrease) in cash and cash equivalents | 86,031 | (11,717) |
| Cash and cash equivalents at: | | |
| Beginning of period | 26,588 | 67,212 |
| End of period | \$112,619 | \$55,495 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$1,347 | \$50 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Property and equipment in accounts payable and accrued liabilities | \$1,741 | \$461 |
| Deferred follow-on offering costs in accounts payable and accrued liabilities | 299 | — |

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 six months ended June 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 June 30, 2018, the Company had cash and cash equivalents of \$112.6 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 million. As of June 30, 2018, we have 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 six months ended June 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 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 our 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 |

| | As Reported June 30, 2018 | Total Adjustment | Amounts Under Previous Standards |
|--|------------------------------------|---------------------|---|
| Balance Sheet | | | |
| Assets | | | |
| Accounts receivable, net of allowances | \$ 16,330 | (4,882) | 11,448 |
| Liabilities | | | |
| Sales return liability | \$ 4,882 | (4,882) | — |

Additionally, in accordance with Topic 606, the balance of breast product inventory estimated to be returned as of June 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 our 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 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.

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. The Company is currently evaluating the impact that adoption of the standard 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 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. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years, with early adoption permitted. The Company is currently evaluating the impact that adoption of the standard will have on the financial statements and related disclosures.

f.Reclassifications

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

3.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

7

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 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, payment contingent on obtaining financing or other terms that could impact the customer's payment obligation.

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. Appropriate 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 refund 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 \$4.9 million and \$3.9 million as of June 30, 2018 and December 31, 2017, respectively, recorded as "sales return liability" on the condensed consolidated balance sheet under Topic 606 as of June 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, 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.

Practical Expedients and Policy Election

The Company generally expenses s