

Sientra, Inc.
Form 10-Q
November 21, 2014
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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, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 001-36709

SIENTRA, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

20-5551000

(I.R.S. Employer Identification No.)

**420 South Fairview Avenue, Suite 200
Santa Barbara, California**

(Address of Principal Executive Offices)

93117

(Zip Code)

(805) 562-3500

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of November 3, 2014, the number of outstanding shares of the registrant's common stock, par value \$0.001 per share, was 14,912,613.

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SIENTRA, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SIENTRA, INC.****Condensed Balance Sheets**

(In thousands, except per share and share amounts)

(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,816	\$ 9,722
Accounts receivable, net of allowances of \$10,452 and \$8,543 at September 30, 2014 and December 31, 2013, respectively	4,317	6,111
Inventories, net	19,247	21,533
Prepaid expenses and other current assets	3,782	884
Total current assets	47,162	38,250
Property and equipment, net	449	254
Goodwill	14,278	14,278
Other intangible assets, net	138	207
Other assets	248	177
Total assets	\$ 62,275	\$ 53,166
Liabilities, Convertible Preferred Stock and Stockholders Deficit		
Current liabilities:		
Current portion of long-term debt	\$ 1,487	\$ 4,768
Accounts payable	2,589	4,065
Accrued and other current liabilities	4,593	4,908
Customer deposits	7,258	15,927
Total current liabilities	15,927	13,741
Long-term debt, net of current portion	23,817	15,092
Warranty reserve and other long-term liabilities	985	550
Total liabilities	40,729	29,383
Commitments and contingencies (note 10)		
Convertible preferred stock, \$0.01 par value Authorized, issued and outstanding 24,593,087 shares at September 30, 2014 and December 31, 2013 (Liquidation preference of \$151,000 as of September 30, 2014 and December 31, 2013)	150,456	150,456
Stockholders deficit:		
Common stock, \$0.01 par value Authorized 30,200,000 shares; Issued 282,071 and 279,879 and outstanding 209,344 and 207,152 shares at September 30, 2014 and December 31, 2013, respectively	3	3
Additional paid-in capital	2,196	1,819
Treasury stock, at cost (72,727 shares at September 30, 2014 and December 31, 2013)	(260)	(260)

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Accumulated deficit	(130,849)	(128,235)
Total stockholders' deficit	(128,910)	(126,673)
Total liabilities, convertible preferred stock and stockholders' deficit	\$ 62,275	\$ 53,166

See accompanying notes to condensed financial statements.

Table of Contents**SIENTRA, INC.****Condensed Statements of Operations**

(In thousands, except per share and share amounts)

(Unaudited)

		Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Net sales	\$	10,670	7,981	32,617	25,921
Cost of goods sold		2,832	1,968	8,287	6,352
Gross profit		7,838	6,013	24,330	19,569
Operating expenses:					
Sales and marketing		4,711	4,704	16,574	15,501
Research and development		1,246	1,234	3,551	3,400
General and administrative		2,634	6,304	7,542	16,072
Total operating expenses		8,591	12,242	27,667	34,973
Loss from operations		(753)	(6,229)	(3,337)	(15,404)
Other (expense) income, net:					
Interest expense		(665)	(232)	(1,507)	(612)
Other (expense) income, net:		(34)	(14)	2,230	(34)

SOLE VOTING POWER

Total other (expense) income, net

- 0 -

8

SHARED VOTING POWER

2,222,079

9

SOLE DISPOSITIVE POWER

- 0 -

10

**SHARED DISPOSITIVE
POWER**

2,222,079

11

**AGGREGATE AMOUNT BENEFICIALLY
OWNED BY EACH REPORTING PERSON**

2,222,079

12

**CHECK BOX IF THE
AGGREGATE AMOUNT IN
ROW (11) EXCLUDES
CERTAIN SHARES**

13

**PERCENT OF CLASS REPRESENTED BY
AMOUNT IN ROW (11)**

14 9.8%
 TYPE OF REPORTING PERSON

 IN

8

CUSIP NO. 23332B106

1 NAME OF REPORTING PERSON

MARK MITCHELL

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
	8	- 0 - SHARED VOTING POWER
	9	2,222,079 SOLE DISPOSITIVE POWER
	10	- 0 - SHARED DISPOSITIVE POWER
		2,222,079

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,222,079

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11)
EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

9.8%

14 TYPE OF REPORTING PERSON

IN

CUSIP NO. 23332B106

1 NAME OF REPORTING PERSON

PETER A. FELD

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
	8	- 0 - SHARED VOTING POWER
	9	2,222,079 SOLE DISPOSITIVE POWER
	10	- 0 - SHARED DISPOSITIVE POWER
		2,222,079

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,222,079

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

9.8%

14 TYPE OF REPORTING PERSON

IN

CUSIP NO. 23332B106

The following constitutes Amendment No. 3 (“Amendment No. 3”) to the Schedule 13D filed by the undersigned (the “Schedule 13D”). This Amendment No. 3 amends the Schedule 13D as specifically set forth herein.

Item 2. Identity and Background.

Item 2 (b) is hereby amended and restated to read as follows:

(b) The address of the principal office of each of Starboard LLC, Starboard Value LP, Starboard Value GP, Principal Co, Principal GP, and Messrs. Smith, Mitchell and Feld is 830 Third Avenue, 3rd Floor, New York, New York 10022. The address of the principal office of Starboard V&O Fund is 89 Nexus Way, Camana Bay, PO Box 31106, Grand Cayman KY1-1205, Cayman Islands.

Item 3. Source and Amount of Funds or Other Consideration.

Item 3 is hereby amended and restated to read as follows:

The Shares purchased by each of Starboard V&O Fund and Starboard LLC were purchased with working capital (which may, at any given time, include margin loans made by brokerage firms in the ordinary course of business) in open market purchases. The aggregate purchase price of the 1,632,625 Shares beneficially owned by Starboard V&O Fund is approximately \$12,451,433, excluding brokerage commissions. The aggregate purchase price of the 589,454 Shares beneficially owned by Starboard LLC is approximately \$4,439,133, excluding brokerage commissions.

Item 4. Purpose of Transaction.

Item 4 is hereby amended to add the following:

On April 4, 2012, Starboard (as defined in the Settlement Agreement) and the Issuer entered into a Settlement Agreement. The following description of the Settlement Agreement is qualified in its entirety by reference to the Settlement Agreement, which is attached as exhibit 99.1 hereto and is incorporated herein by reference.

Pursuant to the terms of the Settlement Agreement the Issuer agreed that prior to the mailing of its definitive proxy statement for the 2012 annual meeting of stockholders (the “2012 Annual Meeting”), the Board of Directors of the Issuer (the “Board”) shall take all necessary actions to: (i) increase the size of the Board from eight (8) to nine (9) members, effective as of the 2012 Annual Meeting, (ii) nominate Kenneth H. Traub and Tom Lacey (together, the “Starboard Nominees”) for election to the Board as Class III directors at the 2012 Annual Meeting, and (iii) cause Dr. Reuven Regev, a Class III director, to stand for re-election at the 2012 Annual Meeting for a term to expire at the 2013 annual meeting of stockholders.

The Issuer further agreed: (i) to use reasonable best efforts to hold the 2012 Annual Meeting no later than May 31, 2012, (ii) prior to April 13, 2012, to appoint the 2012 Starboard Nominees as observers to the Board, (iii) to allow Starboard to recommend substitute directors in the event either of the 2012 Starboard Nominees is unable to serve as a director, resigns or is removed as a director prior to the 2013 Annual Meeting and at such time Starboard beneficially owns in the aggregate at least the lesser of 3.0% of the then outstanding Shares and 681,954 Shares, and (iv) to use reasonable best efforts to report its financial results, including revenue and profitability, across at least two (2) of the Issuer’s business segments, including Home and Enterprise.

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Starboard agreed, among other things, not to, directly or indirectly: (i) nominate any person for election at the 2012 Annual Meeting, (ii) submit any proposal for consideration at, or bring any other business before, the 2012 Annual Meeting, or (iii) initiate, encourage or participate in any “withhold” or similar campaign with respect to the 2012 Annual Meeting.

Pursuant to the terms of the Settlement Agreement, Starboard and the Issuer acknowledged that the only matters that may be presented by the Issuer for consideration at the 2012 Annual Meeting are: (i) the election of directors, (ii) the approval of the Issuer’s 2012 Equity Incentive Plan, (iii) the amendment and restatement of the Issuer’s 1993 Employee Stock Purchase Plan to increase the number of Issuer shares reserved thereunder by 500,000, (iv) the ratification of the Issuer’s independent registered public accounting firm, and (v) the approval, on a non-binding basis, of the compensation arrangements of the Issuer’s named executive officers.

Starboard further agreed to vote all of their shares in support of each of the proposals listed in clauses (i) through (v) directly above at the 2012 Annual Meeting. Starboard also agreed to abide by certain “standstill provisions” until the earlier of ten (10) business days prior to the deadline for the submission of stockholder nominations for the 2013 Annual Meeting or the date that is one hundred (100) days prior to the first anniversary of the 2012 Annual Meeting.

Item 5. Interest in Securities of the Issuer.

Items 5(a)-(c) are hereby amended and restated to read as follows:

The aggregate percentage of Shares reported owned by each person named herein is based upon 22,731,823 Shares outstanding, as of March 7, 2012, which is the total number of Shares outstanding as reported in the Issuer’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 15, 2012.

A. Starboard V&O Fund

(a) As of the close of business on April 6, 2012, Starboard V&O Fund beneficially owned 1,632,625 Shares.

Percentage: Approximately 7.2%.

- (b)
1. Sole power to vote or direct vote: 1,632,625
 2. Shared power to vote or direct vote: 0
 3. Sole power to dispose or direct the disposition: 1,632,625
 4. Shared power to dispose or direct the disposition: 0

(c) Starboard V&O Fund has not entered into any transactions in the Shares during the past sixty days.

B. Starboard LLC

(a) As of the close of business on April 6, 2012, Starboard LLC beneficially owned 589,454 Shares.

Percentage: Approximately 2.6%.

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- (b)
 - 1. Sole power to vote or direct vote: 589,454
 - 2. Shared power to vote or direct vote: 0
 - 3. Sole power to dispose or direct the disposition: 589,454
 - 4. Shared power to dispose or direct the disposition: 0

(c) Starboard LLC has not entered into any transactions in the Shares during the past sixty days.

C. Starboard Value LP

(a) Starboard Value LP, as the investment manager of Starboard V&O Fund and the Manager of Starboard LLC, may be deemed the beneficial owner of the (i) 1,632,625 Shares owned by Starboard V&O Fund and (ii) 589,454 Shares owned by Starboard LLC.

Percentage: Approximately 9.8%.

- (b)
 - 1. Sole power to vote or direct vote: 2,222,079
 - 2. Shared power to vote or direct vote: 0
 - 3. Sole power to dispose or direct the disposition: 2,222,079
 - 4. Shared power to dispose or direct the disposition: 0

(c) Starboard Value LP has not entered into any transactions in the Shares during the past sixty days.

D. Starboard Value GP

(a) Starboard Value GP, as the general partner of Starboard Value LP, may be deemed the beneficial owner of the (i) 1,632,625 Shares owned by Starboard V&O Fund and (ii) 589,454 Shares owned by Starboard LLC.

Percentage: Approximately 9.8%.

- (b)
 - 1. Sole power to vote or direct vote: 2,222,079
 - 2. Shared power to vote or direct vote: 0
 - 3. Sole power to dispose or direct the disposition: 2,222,079
 - 4. Shared power to dispose or direct the disposition: 0

(c) Starboard Value GP has not entered into any transactions in the Shares during the past sixty days.

E. Principal Co

(a) Principal Co, as a member of Starboard Value GP, may be deemed the beneficial owner of the (i) 1,632,625 Shares owned by Starboard V&O Fund and (ii) 589,454 Shares owned by Starboard LLC.

Percentage: Approximately 9.8%.

CUSIP NO. 23332B106

- (b)
 - 1. Sole power to vote or direct vote: 2,222,079
 - 2. Shared power to vote or direct vote: 0
 - 3. Sole power to dispose or direct the disposition: 2,222,079
 - 4. Shared power to dispose or direct the disposition: 0

(c) Principal Co has not entered into any transactions in the Shares during the past sixty days.

F. Principal GP

(a) Principal GP, as the general partner of Principal Co, may be deemed the beneficial owner of the (i) 1,632,625 Shares owned by Starboard V&O Fund and (ii) 589,454 Shares owned by Starboard LLC.

Percentage: Approximately 9.8%.

- (b)
 - 1. Sole power to vote or direct vote: 2,222,079
 - 2. Shared power to vote or direct vote: 0
 - 3. Sole power to dispose or direct the disposition: 2,222,079
 - 4. Shared power to dispose or direct the disposition: 0

(c) Principal GP has not entered into any transactions in the Shares during the past sixty days.

G. Messrs. Smith, Mitchell and Feld

(a) Each of Messrs. Smith, Mitchell and Feld, as a member of Principal GP and as a member of each of the Management Committee of Starboard Value GP and the Management Committee of Principal GP, may be deemed the beneficial owner of the (i) 1,632,625 Shares owned by Starboard V&O Fund and (ii) 589,454 Shares owned by Starboard LLC.

Percentage: Approximately 9.8%.

- (b)
 - 1. Sole power to vote or direct vote: 0
 - 2. Shared power to vote or direct vote: 2,222,079
 - 3. Sole power to dispose or direct the disposition: 0
 - 4. Shared power to dispose or direct the disposition: 2,222,079

(c) None of Messrs. Smith, Mitchell or Feld has entered into any transactions in the Shares during the past sixty days.

Item 7. Material to be Filed as Exhibits.

Item 7 is hereby amended to add the following exhibit:

99.1 Settlement Agreement, dated April 4, 2012, between Starboard and DSP Group, Inc.

CUSIP NO. 23332B106

SIGNATURES

After reasonable inquiry and to the best of his knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: April 9, 2012

STARBOARD VALUE AND
OPPORTUNITY MASTER FUND LTD
By: Starboard Value LP,
its investment manager

STARBOARD VALUE AND
OPPORTUNITY S LLC
By: Starboard Value LP,
its manager

STARBOARD VALUE LP
By: Starboard Value GP LLC,
its general partner

STARBOARD VALUE GP LLC
By: Starboard Principal Co LP,
its member

STARBOARD PRINCIPAL CO LP
By: Starboard Principal Co GP LLC,
its general partner

STARBOARD PRINCIPAL CO GP LLC

By: /s/ Jeffrey C. Smith
Name: Jeffrey C.
Smith
Title: Authorized
Signatory

/s/ Jeffrey C.
Smith
JEFFREY C.
SMITH
Individually
and as
attorney-in-fact
for Mark
Mitchell and
Peter A. Feld