NeuroMetrix, Inc.
Form 10-Q
October 17, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x 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 001-33351

NEUROMETRIX, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-3308180
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Winter Street, Waltham, Massachusetts	02451
(Address of principal executive offices)	(Zip Code)

(781) 890-9989
(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 x 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 x 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 a emerging growth company. See definition 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x Emerging growth company ¨

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

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 the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 7,365,038 shares of common stock, par value $0.0001 per share, were outstanding as of October 12, 2018.
In addition, there were 454,781 warrants to purchase shares of the issuer's common stock listed under NUROW on the Nasdaq stock exchange outstanding as of October 12, 2018.

NeuroMetrix, Inc.
Form 10-Q
Quarterly Period Ended September 30, 2018

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NeuroMetrix, Inc.
Balance Sheets

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$7,530,598	$4,043,681
Accounts receivable, net	1,615,842	1,049,329
Inventories	2,597,340	2,142,561
Prepaid expenses and other current assets	827,823	1,867,803
Total current assets	12,571,603	9,103,374
Fixed assets, net	380,468	440,842
Other long-term assets	86,255	55,008
Total assets	$13,038,326	$9,599,224
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$1,151,235	$733,305
Accrued expenses and compensation	1,921,406	2,362,124
Accrued product returns	1,105,960	666,375
Deferred revenue	—	820,031
Total current liabilities	4,178,601	4,581,835
Total liabilities	4,178,601	4,581,835
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock	—	—
Convertible preferred stock	18	30
Common stock, $0.0001 par value; 100,000,000 shares authorized at September 30, 2018 and December 31, 2017; 7,365,038 and 2,706,066 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	737	271
Additional paid-in capital	197,072,928	196,355,142
Accumulated deficit	(188,213,958)	(191,338,054)
Total stockholders' equity	8,859,725	5,017,389
Total liabilities and stockholders' equity	$13,038,326	$9,599,224

The accompanying notes are an integral part of these interim financial statements.

NeuroMetrix, Inc.
Statements of Operations
(Unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$3,666,780	$3,546,680	$12,361,338	$12,162,861
Cost of revenues	1,821,111	2,040,997	6,726,675	7,378,001
Gross profit	1,845,669	1,505,683	5,634,663	4,784,860
Operating expenses:				
Research and development	1,178,468	840,577	4,074,895	2,621,445
Sales and marketing	2,334,340	2,919,504	7,039,933	8,436,497
General and administrative	1,015,489	1,258,466	3,990,266	3,925,595
Total operating expenses	4,528,297	5,018,547	15,105,094	14,983,537
Loss from operations	(2,682,628)	(3,512,864)	(9,470,431)	(10,198,677)
Other income:				
Collaboration income	3,750,000	—	12,255,704	—
Other income	18,686	3,881	40,965	219,498
Total other income	3,768,686	3,881	12,296,669	219,498
Net income (loss)	1,086,058	(3,508,983)	2,826,238	(9,979,179)
Net income (loss) applicable to common stockholders:				
Deemed dividends attributable to preferred shareholders	—	(2,833,098)	—	(6,874,780)
Net income (loss) applicable to common stockholders	$1,086,058	$(6,342,081)	$2,826,238	$(16,853,959)
Net income (loss) per common share applicable to common stockholders,				
Basic	$0.15	$(3.11)	$0.40	$(11.62)
Diluted	$0.08	$(3.11)	$0.20	$(11.62)

The accompanying notes are an integral part of these interim financial statements.

NeuroMetrix, Inc.
Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income (loss)	$2,826,238	$(9,979,179)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	166,262	198,892
Stock-based compensation	414,722	170,093
Change in fair value of warrant liability	—	(208,480)
Changes in operating assets and liabilities:		
Accounts receivable	786,986	315,285
Inventories	(454,779)	(533,836)
Prepaid expenses and other current and long-term assets	425,242	(365,547)
Accounts payable	417,930	(22,074)
Accrued expenses and compensation	(146,454)	678,326
Accrued product returns	(852,596)	(30,529)
Deferred revenue	—	297,558
Net cash provided by (used in) operating activities	3,583,551	(9,479,491)
Cash flows from investing activities:		
Purchases of fixed assets	(105,888)	(70,226)
Net cash used in investing activities	(105,888)	(70,226)
Cash flows from financing activities:		
Net proceeds from issuance of stock and warrants	9,254	9,569,800
Net cash provided by financing activities	9,254	9,569,800
Net increase in cash and cash equivalents	3,486,917	20,083
Cash and cash equivalents, beginning of period	4,043,681	3,949,135
Cash and cash equivalents, end of period	$7,530,598	$3,969,218
Supplemental disclosure of cash flow information:		
Change in fair value of warrant liability from repricing	$—	$244,611
Exchange of warrant liability for Series F Preferred Stock	$—	$40,772
Common stock issued to settle employee incentive compensation obligation	$294,264	$—

The accompanying notes are an integral part of these interim financial statements.

3

NeuroMetrix, Inc.
Notes to Unaudited Financial Statements
September 30, 2018

1. Business and Basis of Presentation

Our Business-An Overview

NeuroMetrix, Inc., or the Company, is a commercial stage, innovation driven healthcare company combining bioelectrical and digital medicine to address chronic health conditions including chronic pain, sleep disorders, and diabetes. The Company's lead product is Quell, an over-the-counter wearable therapeutic device for chronic pain. Quell is integrated into a digital health platform that helps patients optimize their therapy and decrease the impact of chronic pain on their quality of life. The Company also markets DPNCheck®, a rapid point-of-care test for diabetic neuropathy, which is the most common long-term complication of Type 2 diabetes. The Company maintains an active research effort. The Company is located in Waltham, Massachusetts and was founded as a spinoff from the Harvard-MIT Division of Health Sciences and Technology in 1996.

In January 2018, the Company entered into a collaboration (the "Collaboration") with GlaxoSmithKline ("GSK"). The Collaboration set up a framework for the joint development of the next generation of Quell, recently launched in the United States in September 2018, and the assignment of areas of marketing responsibility. The initial term of the Collaboration runs through 2020. Through September 30, 2018, GSK has paid the Company $12.7 million, committed to future performance milestone payments totaling up to $13.8 million, and agreed to co-fund Quell development costs starting in 2019.

The accompanying financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. In recent years, the Company has suffered recurring losses from operations and negative cash flows from operating activities. At September 30, 2018, the Company had an accumulated deficit of $188.2 million. The Company held cash and cash equivalents of $7.5 million as of September 30, 2018. The Company believes that these resources, together with the cash to be generated from expected product sales and the potential achievement of additional development milestones under the Collaboration with GSK, will be sufficient to meet its projected operating requirements into the second quarter of 2019. The Company continues to face significant challenges and uncertainties and, as a result, the Company's available capital resources may be consumed more rapidly than currently expected due to (a) decreases in sales of the Company's products and the uncertainty of future revenues; (b) delays in achieving Quell development milestones and related payments from GSK; (c) changes the Company may make to the business that affect ongoing operating expenses; (d) changes the Company may make in its business strategy; (e) regulatory developments or inquiries affecting the Company's existing products and products under development; (f) changes the Company may make in its research and development spending plans; and (g) other items affecting the Company's forecasted level of expenditures and use of cash resources. Accordingly, the Company may need to raise additional funds to support its operating and capital needs in the second quarter of 2019 and beyond. These factors raise substantial doubt about the Company's ability to continue as a going concern for the one-year period from the date of issuance of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company intends to obtain additional funding through public or private financing, or through additional credit lines or other debt financing sources. However, the Company may not be able to secure such financing in a timely manner or on favorable terms, if at all. Furthermore, if the Company issues equity or debt securities to raise additional funds, its existing stockholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of the Company's existing stockholders. Without additional funds, the Company may be forced to delay, scale back or eliminate some of its sales and marketing efforts, research and development activities, or other operations and potentially delay product development. If any of these events occurs, the Company’s ability to achieve its development and commercialization goals may be adversely affected.

Unaudited Interim Financial Statements

The accompanying unaudited balance sheet as of September 30, 2018, unaudited statements of operations for the quarters and nine months ended September 30, 2018 and 2017 and the unaudited statements of cash flows for the nine months ended September 30, 2018 and 2017 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. The accompanying balance sheet as of December 31, 2017 has been derived from audited financial statements prepared at that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, the financial statements include all normal and recurring adjustments considered necessary for a fair presentation of the Company's financial position and operating results. Operating results for the quarter and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any other period. These financial statements and notes should be read in conjunction with the financial statements for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, or the SEC, on February 8, 2018 (File No. 001-33351), or the Company's 2017 Form 10-K.

Revenues

Revenues include product sales, net of estimated returns. Revenue is measured as the amount of consideration the Company expects to receive in exchange for product transferred. Revenue is recognized when contractual performance obligations have been satisfied and control of the product has been transferred to the customer. In most cases, the Company has a single product delivery performance obligation. Product returns are estimated based on historical data and evaluation of current information.

Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), is a comprehensive revenue recognition standard that superseded nearly all existing revenue recognition guidance. The Company adopted this standard effective January 1, 2018, applying the modified retrospective method. Upon adoption, the Company discontinued revenue deferral under the sell-through model and commenced recording revenue upon delivery to distributors, net of estimated returns. Generally, the new standard results in earlier recognition of revenues.

Upon adoption of ASU 2014-09, the Company recorded a decrease in accumulated deficit of $297,858 as detailed in the following table:

	As reported December 31, 2017	ASU 2014-09 Impact	After adoption January 1, 2018
Accounts receivable, net	$1,049,329	$1,353,499	$2,402,828
Prepaid expenses and other current assets	$1,867,803	$(583,491)	$1,284,312
Total current assets	$9,103,374	$770,008	$9,873,382
Accrued product returns	$666,375	$1,292,181	$1,958,556
Deferred revenue	$820,031	$	