NeuroMetrix, Inc.
Form 10-Q
April 24, 2015

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 March 31, 2015

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

incorporation or organization)

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 o

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 o

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

8,519,151 shares of common stock, par value $0.0001 per share, were outstanding as of April 22, 2015.

NeuroMetrix, Inc.

Form 10-Q

Quarterly Period Ended March 31, 2015

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NeuroMetrix, Inc.

Balance Sheets

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$6,403,123	$9,221,985
Accounts receivable, net	921,595	580,240
Inventories	635,163	679,740
Prepaid expenses and other current assets	262,937	608,160
Total current assets	8,222,818	11,090,125
Fixed assets, net	539,718	311,520
Other long-term assets	368,366	585
Total assets	$9,130,902	$11,402,230
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$916,519	$522,871
Accrued compensation	779,877	885,353
Accrued expenses	1,286,184	1,264,876
Current portion of deferred revenue	336,353	25,048
Total current liabilities	3,318,933	2,698,148
Deferred revenue, net of current portion	9,296	9,635
Common stock warrants	4,121,030	5,307,332
Total liabilities	7,449,259	8,015,115
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized at March 31, 2015 and December 31, 2014; no shares issued and outstanding at March 31, 2015 and December 31, 2014	—	—

Convertible preferred stock, 11,083 and 4,438 shares designated at March 31, 2015 and December 31, 2014, respectively, and 3,206.357 and 3,614.357 shares issued and outstanding at March 31, 2015 and December 31, 2014	3	4
Common stock, $0.0001 par value; 50,000,000 shares authorized; 8,519,151 and 8,152,746 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	852	815
Additional paid-in capital	158,130,318	157,764,598
Accumulated deficit	(156,449,530)	(154,378,302)
Total stockholders' equity	1,681,643	3,387,115
Total liabilities and stockholders' equity	$9,130,902	$11,402,230

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

NeuroMetrix, Inc.

Statements of Operations

(Unaudited)

	Quarters Ended March 31, 2015	2014
Revenues	$1,282,960	$1,331,537
Cost of revenues	637,261	615,081
Gross profit	645,699	716,456
Operating expenses:		
Research and development	902,542	863,718
Sales and marketing	1,455,686	446,216
General and administrative	1,546,090	1,146,757
Total operating expenses	3,904,318	2,456,691
Loss from operations	(3,258,619)	(1,740,235)
Interest income	1,089	1,036
Change in fair value of warrant liability	1,186,302	514,600
Net loss	$(2,071,228)	$(1,224,599)
Net loss per common share, basic and diluted	$(0.25)	$(0.21)
Weighted average number of common shares outstanding, basic and diluted	8,274,084	5,931,134

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

NeuroMetrix, Inc.

Statements of Cash Flows

(Unaudited)

	Quarters Ended March 31, 2015	2014
Cash flows from operating activities:		
Net loss	$(2,071,228)	$(1,224,599)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	29,144	34,965
Stock-based compensation	83,999	76,484
Change in fair value of warrant liability	(1,186,302)	(514,600)
Changes in operating assets and liabilities:		
Accounts receivable	(341,355)	(139,744)
Inventories	44,577	(102,659)
Prepaid expenses and other current assets	344,874	60,186
Accounts payable	311,487	135,090
Accrued expenses and compensation	197,589	72,133
Deferred revenue, deferred costs, and other	(56,466)	(5,356)
Net cash used in operating activities	(2,643,681)	(1,608,100)
Cash flows from investing activities:		
Purchases of fixed assets	(175,181)	(4,115)
Net cash used in investing activities	(175,181)	(4,115)
Net decrease in cash and cash equivalents	(2,818,862)	(1,612,215)
Cash and cash equivalents, beginning of period	9,221,985	9,195,753
Cash and cash equivalents, end of period	$6,403,123	$7,583,538
Supplemental disclosure of cash flow information:		
Common stock issued to settle employee incentive compensation obligation	$281,757	$104,405
Purchases of fixed assets in accounts payable	$82,161	$—

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

NeuroMetrix, Inc.

Notes to Unaudited Financial Statements

March 31, 2015

1. Business and Basis of Presentation

Our Business-An Overview

NeuroMetrix, Inc., or the Company, a Delaware corporation, was founded in June 1996. The Company develops wearable medical technology and point-of-care tests that help patients and physicians better manage chronic pain, nerve diseases, and sleep disorders. The Company markets the SENSUS™ Pain Management System, or SENSUS, which is a wearable therapeutic device designed for relief of chronic, intractable pain. The Company also markets DPNCheck®, which is a quantitative nerve conduction test that is used by physicians and health care professionals to evaluate systemic neuropathies such as diabetic peripheral neuropathy, or DPN. The Company's historical neurodiagnostic business is based on the ADVANCE™ NCS/EMG System, or the ADVANCE System, which is a comprehensive platform for the performance of traditional nerve conduction studies and invasive electromyography procedures and which is primarily used in physician offices and clinics. The Company is developing a new over-the-counter wearable therapeutic device branded Quell which builds upon the core SENSUS neuro-stimulation technology. Quell was unveiled at the January 2015 Consumer Electronics Show (CES) and is targeted for commercial launch in the United States during the second quarter of 2015.

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. The Company has suffered recurring losses from operations and negative cash flows from operating activities. The Company held cash and cash equivalents of $6.4 million as of March 31, 2015. The Company believes that these resources and the cash to be generated from expected product sales will be sufficient to meet its projected operating requirements through the third quarter of 2015. 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 from new products; (b) changes the Company may make to the business that affect ongoing operating expenses; (c) changes the Company may make in its business strategy; (d) regulatory developments affecting the Company's existing products and delays in the FDA approval process for products under development; (e) changes the Company may make in its research and development spending plans; and (f) other items affecting the Company's forecasted level of expenditures and use of cash resources. Accordingly, the Company will need to raise additional funds to support its operating and capital needs in the fourth quarter of 2015 and beyond. These factors raise substantial doubt about the Company's ability to continue as a going concern. 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, collaborative arrangements with strategic partners, or through additional credit lines or other debt financing sources to increase the funds available to fund operations. 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. If the Company raises additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to its potential products or proprietary technologies, or grant licenses on terms that are not favorable to the Company. 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 in an effort to provide sufficient funds to continue its operations. If any of these events occurs, the Company’s ability to achieve its development and commercialization goals would be adversely affected.

Unaudited Interim Financial Statements

The accompanying unaudited balance sheet as of March 31, 2015, unaudited statements of operations for the quarters ended March 31, 2015 and 2014 and the unaudited statements of cash flows for the quarters ended March 31, 2015 and 2014 have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The accompanying balance sheet as of December 31, 2014 has been derived from audited financial statements prepared at that date, but does not include all disclosures required by US GAAP. In the opinion of management, the financial statements include all normal and recurring adjustments considered necessary for a fair statement of the Company's financial position and operating results. Operating results for the quarter ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or any other period. These financial statements and notes should be read in conjunction with the financial statements for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, or the SEC, on February 25, 2015 (File No. 001-33351), or the Company's 2014 Form 10-K.

Revenues

The Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, delivery has occurred and risk of loss has passed, the seller's price to the buyer is fixed or determinable, and collection is reasonably assured.

Revenues associated with the sale of the ADVANCE devices to customers and distributors are recognized upon shipment, provided that the selling price is fixed or determinable, persuasive evidence of an arrangement exists, collection of receivables is reasonably assured, product returns are reasonably estimable, and no continuing obligations exist. The revenues from the sale of an ADVANCE communication hub together with access to NeuroMetrix information systems are considered one unit of accounting and deferred and recognized on a straight-line basis over the estimated period of time that the Company provides the service associated with the information systems of three years. The resulting deferred revenue and deferred costs are presented as separate line items on the accompanying balance sheet. Revenues related to extended service agreements for the devices are recognized ratably over the term of the extended service agreement.

Revenues associated with the sale of the SENSUS and DPNCheck devices and, when available, Quell are recognized upon shipment, provided that the selling price is fixed or determinable, persuasive evidence of an arrangement exists, collection of receivables is reasonably assured, product returns are reasonably estimable, and no continuing obligations exist.

Revenues also include sales of consumables, including single use nerve specific electrodes and other accessories. These revenues are recognized upon shipment provided that the selling price is fixed or determinable, persuasive evidence of an arrangement exists, collection of receivables is reasonably assured, and product returns are reasonably estimable.

When multiple elements are contained in a single arrangement, the Company allocates revenue between the elements based on their relative selling prices. The Company determines selling price using vendor specific objective evidence, or VSOE, if it is available, third-party evidence, or TPE, if VSOE is not available, and best estimate of selling price, or BESP, if neither VSOE nor TPE are available. The Company generally expects that it will not be able to establish TPE due to the nature of the markets in which it competes, and, as such, it will typically determine selling price using VSOE or if not available, BESP. The objective of BESP is to determine the selling price of a deliverable on a standalone basis. The Company's determination of BESP involves a weighting of several factors based on the specific facts and circumstances of an arrangement. Specifically, the Company considers the cost to produce the deliverable, the anticipated margin on that deliverable, the selling price and profit margin for similar parts, its ongoing pricing strategy, the value of any enhancements that have been built into the deliverable, and the characteristics of the varying markets in which the deliverable is sold.

Revenue recognition involves judgments, including assessments of expected returns and expected customer relationship periods. The Company analyzes various factors, including a review of specific transactions, its historical returns, average customer relationship periods, customer usage, customer balances, and market and economic conditions. Changes in judgments or estimates on these factors could materially impact the timing and amount of revenues and costs recognized. Should market or economic conditions deteriorate, the Company's actual return or bad debt experience could exceed its estimate.

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Certain product sales are made with a 30-day right of return. Since the Company can reasonably estimate future returns, it recognizes revenues associated with product sales that contain a right of return upon shipment and at the same time it records a sales return reserve, which reduces revenue and accounts receivable by the amount of estimated returns.

During the first quarter of 2015, one customer accounted for 21% of total revenue and 22% of gross accounts receivables.

In comparison, in the first quarter of 2014, one customer accounted for 12% of total revenue and 16% of gross accounts receivables.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during reporting periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The standard is effective for public entities for annual and interim periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the provisions of ASU 2014-15 and assessing the impact, if any, it may have on our financial position, results of operations or cash flows.

In May 2014, the FASB and the International Accounting Standards Board ("IASB") jointly issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance. The objective of ASU 2014-09 is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has issued a proposal to defer the effective date to January 1, 2018. An entity can elect to adopt ASU 2014-09 using one of two methods, either full retrospective adoption to each prior reporting period, or recognizing the cumulative effect of adoption at the date of initial application. The Company is in the process of evaluating the new standard and does not know the effect, if any, ASU 2014-09 will have on the Consolidated Financial Statements or which adoption method will be used.

2. Comprehensive Loss

For the quarters ended March 31, 2015 and 2014, the Company had no components of other comprehensive income or loss other than net loss itself.

3. Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Unvested restricted shares, although legally issued and outstanding, are not considered outstanding for purposes of calculating basic net income per share. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period plus the dilutive effect of the weighted average number of outstanding instruments such as options, warrants, and restricted stock. Because the Company has reported a net loss for all periods presented, diluted loss per common share is the same as basic loss per common share, as the effect of utilizing the fully diluted share count would have reduced the net loss per common share. Therefore, in calculating net loss per share amounts, shares underlying the following potentially dilutive weighted average number of common stock equivalents were excluded from the calculation of diluted net income per common share because their effect was anti-dilutive for each of the periods presented:

	Quarters Ended March 31,	
	2015	2014
Options	809,257	314,443
Warrants	5,760,847	1,839,278
Unvested restricted stock	832	14,447
Convertible preferred stock	1,571,744	—
Total	8,142,680	2,168,168

4. Inventories

Inventories consist of the following:

	March 31, 2015	December 31, 2014
Purchased components	$307,553	$ 209,426
Finished goods	327,610	470,314
	$635,163	$ 679,740

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5. Accrued Compensation and Expenses

The following table provides a rollforward of the liability balance for severance obligations which was recorded as research and development and sales and marketing expense in the Company's Statement of Operations for the year ended December 31, 2014. The balance as of March 31, 2015 which is included as a component of accrued compensation on the balance sheet will be paid by June 30, 2015.

	March 31, 2015
Balance - beginning	$148,921
Accrual for severance	—
Severance payments made	(77,457)
Balance - ending	$71,464

Accrued expenses consist of the following:

	March 31, 2015	December 31, 2014
Technology fees	$450,000	$ 450,000
Professional services	286,601	257,024
Consulting fees	35,550	173,759
Clinical study obligations	64,000	74,000
Sales taxes	44,774	34,206
Personnel related obligations	35,692	37,761
Federal excise tax		